REPORT

OF THE

ROYAL COMMISSION

ON THE

PRINCE EDWARD ISLAND POTATO INDUSTRY

NOVEMBER 1987

REPORT

OF THE

ROYAL COMMISSION

ON THE

PRINCE EDWARD ISLAND POTATO INDUSTRY

Printed by
Queen's Printer
November 1987

Royal Commission on the
Prince Edward Island Potato Industry

TO HIS HONOUR
THE LIEUTENANT-GOVERNOR IN COUNCIL

MAY IT PLEASE YOUR HONOUR

As Commissioner appointed under the provisions of the Public Inquiries Act (R.S.P.E.I. 1974, cap. P-30) by Order-in-Council No. EC565/86 dated 20 October 1986, to make full inquiry and to make findings and recommendations consistent with the public interest of the Province of Prince Edward Island into and concerning all matters relating to the marketing of Prince Edward Island potatoes: I beg to submit to Your Honour this Report.

Frederick L. Driscoll

Frederick L. Driscoll
Commissioner

November, 1987

CONTENTS

Preface i

Introduction 1

Chapter 1 - Recent History of Prince Edward Island Potato Marketing: The Seeds of Dissent 16

Chapter 2 - State of the Industry 82

Chapter 3 - The Marketing of Prince Edward Island Potatoes 134

Chapter 4 - Product Quality 236

Chapter 5 - The Potato Marketing Board 257

Chapter 6 - The Legislative Framework 287

Chapter 7 - National Alternatives 335

Conclusion 369

Recommendations 373

Appendices 387

Preface

This Royal Commission of Inquiry was appointed by Order-in-Council No. EC565/86 of 20 October 1986. The appointment was made pursuant to the provisions of the Public Inquiries Act, Chapter P-30 of the Revised Statutes of Prince Edward Island 1974.

The mandate of the Commission was not limited in any way, but it was specifically asked to "...inquire and report upon the following:"

a) the appropriateness, efficiency and usefulness of existing marketing practices in achieving a fair return for producers;

b) the necessity or advisability of changing the present marketing system;

c) the adequacy of existing legislation governing potato marketing;

d) the place of the Prince Edward Island potato industry in the national and international marketplace; and,

e) any other related matters which the Commission considers should be brought to the attention of the Lieutenant-Governor-in-Council.

While the mandate excludes no matter of relevance to the potato industry, the Commission judged very early in its life that time and resources would require some de-limitation of the subject matter. This was done with the understanding of government. When announcing the appointment of the Commission both the Premier and the Minister of Agriculture made it very clear that the Commission was apppointed as a result of the plebiscite of October 1986 on the future of the present Potato Marketing Board. The Minister of Agriculture deemed the results of that plebiscite "inconclusive" and both he and the Premier wished to have advice before taking action. This Commission was the means chosen to obtain that advice. Consequently, the Commission has focussed its attention on the system for marketing potatoes and the attendant marketing institutions presently in place.

The term "marketing" in its broadest sense leaves out few of the activities associated with any industry. For example, the methods and levels of production, the quality of the product, the means and costs of transportation, transportation subsidies, and the numbers of producers and marketers all can influence the price obtained for the product. In order to keep its mandate manageable, the Commission has defined marketing as those activities normally associated with the actual buying and selling of the product.

One of the first activities of the Commission was a series of meetings with farm organizations in the province to seek their advice as to how the Commission's mandate ought to be interpreted. The Commission has been guided by that advice. Where it has ventured beyond those matters recommended to it, it has done so because the Commission has judged such matters to be of sufficient importance to receive attention.

While the Commission had all of the powers bestowed by the Public Inquiries Act (1974), including the powers to subpoena persons and documents, it preferred, if possible, to make the process informal. The Commission chose this approach because, essentially, it was asked to recommend on a matter of public policy, and not to investigate wrong-doing or to establish the facts of some event from the past, as many Commissioners are asked to do. The Commission believes it was successful in maintaining this approach.

Because it was advising on public policy, the Commission judged its responsibilities to be the gathering and assessment of the necessary information, the hearing of opinions, and the making of recommendations. The Commission itself gathered some of the information by reviewing the market information available from the published data, by reviewing the legislation in place in Prince Edward Island and in other jurisdictions, and by studying the history of the industry in Prince Edward Island. Where necessary, the Commission hired those with the needed expertise and facilities to provide it with the required information on present market performance and practices.

Information and opinion was also sought by the holding of public hearings and by numerous meetings and consultations with industry participants. During the public hearings the Commission heard from 18 organizations and individuals, and it met in a non-public manner with approximately 43 groups and individuals.

The Commission was fortunate to be able to retain the services of people very knowledgeable about various parts of the subject matter. Roygold Consultants was retained to examine the marketing structure in place here and elsewhere.

The head of the firm, Max Roytenberg, has devoted much of his career to analyzing the marketing of agriculture products. Mr. Roytenberg has a Masters of Science degree in Agriculture (Marketing) from the University of Toronto. He worked in the Canadian Department of Agriculture from 1958-63 as an economist. From 1963-74, he was employed in a number of senior postions with Stienbergs Ltd. of Montreal. In 1975, Mr. Roytenberg became General Manager of the Canadian Egg Marketing Board, a position he held until 1980 when he decided to go into private business. Mr. Roytenberg himself conducted this study for the Commission, and it is being submitted as a background document to this Report.

The Commission has examined land use and the appropriate size for the industry. To assist with this assessment the Commission was able to retain the services of Dr. Ian MacQuarrie of the Department of Biology at the University of Prince Edward Island. Dr. MacQuarrie is a well-known conservationist and environmentalist and one of the most qualified persons to examine the land use practices of the potato industry. His findings are also submitted as a background document to this Report.

The Commission judged that quality control measures are so important to the Island industry that they deserve careful attention and study. To examine quality control, the Commission had the benefit of the services of HP Consultants of Charlottetown, headed by Mr. Henry Phillips. Besides being knowledgeable about government services, Mr. Phillips' firm had at its disposal the resources of Cooper and Lybrand Ltd. and UMA Group Ltd. The findings on quality control are submitted as a background document to this Report.

In addition to the studies prepared for it, and its numerous consultations with groups witnin the province, the Commission also met with potato industry officials and marketers outside the Province. It met with officials of the industry in New Brunswick, Quebec, Ontario and Manitoba, and major buyers in Maine and New England. The benefit of these discussions are hopefully reflected in this Report.

The Commission thanks all who contributed in any way to this Report. It especially thanks those who appeared at the public hearings, or took the time and made the effort to meet with the Commission either publicly or privately. The thanks of the Commission are also extended to those individuals whom the Commission visited and talked to in their farm-yards or kitchens. All were most courteous and generous with their time.

The Commissioner thanks personally the Commission staff. Ruth Freeman and Jennifer Callaghan researched and drafted the chapter on the history of the industry. Ms. Freeman was also invaluable in helping to edit and organize the final draft of the Report. The Commission's Administrative Assistant, Mrs. Sheila Laird, carried out the secretarial and administrative tasks of the Commission with enthusiasm and skill, and was often called upon to volunteer time and effort beyond the normal working hours. Special thanks is also extended to the Commission's legal advisor, Mr. Mark Ledwell, and to the Commission's editor, Daphne Harker.

To the Commission's Assistant, Mr. Ivan MacArthur, the Commissioner extends thanks for carrying out a major responsibility with intelligence, skill, and dedication. If this Report contributes in any way to the betterment of the potato industry in Prince Edward Island, much of the credit must go to the Commission staff and to those who prepared studies for it.

INTRODUCTION

The potato industry is the most important component of the Island's major economic activity, agriculture. Agriculture represents approximately 9 per cent of the Gross Provincial Product. Farm receipts for potatoes account for over one-third of the total for Island agriculture. In some years, potato receipts exceed $100 million. In 1984, international exports of seed and tablestock potatoes were valued at over $40 million. Potatoes are grown on approximately 70,000 acres of land involving 650 farm units. According to 1986 census figures, the value of land, building, and equipment assets on potato farms is approximately $270 million. The same census reports that potato farms provide over 900 person-years of on-farm employment. The potato industry also forms the basis for considerable off-farm employment. The Island's major potato processor, Cavendish Farms, is the largest private sector employer in the province. The potato industry also provides the basis for much employment in the service sector. Farm suppliers, financial institutions, marketers, transporters, and many others are dependent on the potato industry for their financial success. With this data, the importance of the potato industry to Prince Edward Island becomes self-evident.

The achievements of the industry are the result of the knowledge, expertise, efficiency, and often dedication, of many excellent growers, dealers, marketers, and industry orgranizations. Without the contribution of all the sectors, the Island potato industry could not be what it is today.

Even the qualities of the soil contribute to the success of the industry. The Island soil, when well managed by Island producers, produces higher potato yields than any other Canadian province, and surpasses the yields of many producing areas in the United States.

While the Island potato industry is of great importance to Prince Edward Island, it must be remembered that the Canadian potato industry is not nearly as important to Canada. The Canadian potato industry represents only 1 per cent of world production, and potato exports are an insignificant part of total Canadian exports. Island production represents only about one-third of Canadian production and therefore only about one-third of one per cent of world production.[1] Many countries, including Russia, China, Poland, Spain and the United States produce far more potatoes than does Canada. Island shipments out of North America represent about 20 per cent of total Island potato sales. Consequently, in the context of a commodity which is grown and marketed internationally, Island production is minute, and its place in international trade is even less significant. Total Dutch exports are approximately double total Island production.[2] This is a sobering thought which ought to remind all Islanders of the need for an efficient and well-organized potato industry.

Unfortunately, while Island potato production may be quite efficient, its organization and marketing practices have created continuing turmoil and controversy. For an industry of such importance to the Island economy, and yet so vulnerable to outside forces, the public and government should be concerned about this. The public, and the government which it elects, have a right to demand that the potato industry put its own house in order because the importance of the industry extends far beyond those who grow, or buy and sell potatoes.

As Chapter 1 makes clear, the turmoil and controversy to which we refer has existed since the 1920s, when producers first attempted organized marketing, and has continued to 1986 when the results of a plebiscite of producers on the continuation of the present Potato Marketing Board were judged to be inconclusive, despite the fact that a majority of producers voted against its continuation. The history of the years in between reveals a saga of thwarted efforts by producers to gain some influence in the marketplace, and describes a continual struggle of competing interests for control of the industry. Marketing plans have come and gone, many plebiscites have been held, and the controversy continues.

The causes of the turmoil and controversy are several. Fundamental, however, is the lack of - or the perceived lack of - producer influence in the marketplace. Every crisis in the industry has been the result of some effort by producers, by whatever means, to obtain what is seen to be a fair price for their product. These efforts have taken the form of co-operative marketing, marketing pools, one-desk selling, price fixing by the commodity board, and even production quotas. When these efforts failed, the controversy tended to centre on "family" disputes, such as the membership of the commodity board, the role of dealers in the industry, and the profit margins taken by them and others in the market chain. Whatever the reason for turmoil and controversy at any particular time, it was always fuelled by a lack of information available to the producers to enable them to make some judgement about the real value of their product. These causes for turmoil and controversy remain in the potato industry today.

An unfortunate result of past disputes has been a pre-occupation with the provincial marketing system. Too often the role of the commodity board, the place of dealers in the system, and the profit margins taken by various participants, have been the centre of discussions and the focus of everyone's energies. Consequently, effective leadership has been lacking and many important issues have received less attention than they deserve.

There can be no doubt that until the problems are resolved satisfactorily, the existing market system and the existing provincial marketing organizations require industry attention. There are legitimate questions to be asked about the industry's present structure and the role of some of its participants. Chapter 3 describes a marketplace which is less than ideal. There is an even greater need for some individuals in the Island industry, and they are often of considerable influence, to question their basic assumptions about how the market does operate and how it should operate.

The present marketing system for Island potatoes operates as it is intended. It is essentially an "open" market (some call it free enterprise) in which each participant acts in his own interest. Such a system is intended to be unregulated. If some are more successful than others, it is presumed to be because of their superior skills and abilities. It is also presumed by its supporters that the open market is fair to all participants. Such assumptions are hardly realistic in today's economy. The real question is whether the present market system, and the assumptions supporting it, is best for the Island industry.

A perfectly competitive market is a rare institution today, and perhaps never existed in Canada. It exists when all participants have equal economic and political power, have equal access to all market information, are equally well organized, and all operate freely in the marketplace. Such is rarely the case. Governments have intervened at all levels of the economy with a variety of programs and regulations designed to influence the open market. Some industries and some sectors of individual industries have organized themselves in a way which permits them to strengthen their position in the market or to influence its performance. The powerful and the well organized have an advantage. While possessing economic power in some markets, the Island potato industry is not assisted by government regulation or effective organization to strengthen its position in the market or to influence its performance. Within the industry, producers are the least organized of any participants and lack an effective instrument to act on their behalf.

Chapter 3 makes it clear that a perfectly competitive market does not exist in the potato industry. The potato market is monopolistic in nature because it is dominated by a very few large buyers at the wholesale and retail end. These large buyers often have an undue influence on market performance because the production end of the industry is disorganized. Chapter 3 also makes it clear that none in the industry are as dependent on actual prices as is the producer. All participants in the industry, with the exception of producers, are primarily dependent on the movement of large volumes and the taking of a margin of profit on those volumes. Consequently, only producers are completely dependent on real prices for profit and because of lack of organization they have little influence.

None of the above commentary should reflect, nor is intended to reflect, on the role of any of the participants in the industry. As stated earlier, the present marketing system is operating as is intended. Since there is no consensus among produers to change the system, there should be no complaints about its operation.

Unless there is a serious determination by producers to change the system, the continuing debate must focus on the most effective means by which to use the present system to protect and to strengthen the role of Island producers. The Commission attempts this in its recommendations. The Commission suggests new legislation to give a new commodity board broader powers to act on behalf of producers and to protect their interests in the open market. The Commission also suggests that producers participate directly in the marketing of their own product. The Commission makes these suggestions because in an open market public institutions such as producer-controlled commodity boards mandated by government should act to protect the weak and to establish a balance of power within the system. If a commodity board fails to do this, then producers should participate directly in the marketplace by forming their own business organization.

There can be no doubt that some satisfactory resolution of the industry's marketing organization is essential to ensure a fair - or at least the best possible - price to the producer. But it is even more essential to resolve past disputes so that effective leadership can be restored to the industry. This is necessary so that many important issues can be addressed. Because of the periodic pre-occupation with crises in the marketplace, and the continuing conflict of competing interests, many major issues of long-term significance receive little attention. The industry cannot afford to continue to dissipate its energies, its time, and its talents on internal controversies when all participants should be collectively addressing many other matters which affect its long-term future.

These matters are many and include such items as: the appropriate size for the industry within Island agriculture and within the total Island economy; the adequacy of the land base to support a continually-expanding potato industry; the appropriateness of present land practices within the industry; the future of the seed export market, which may be in jeopardy; the finding of alternative markets and uses to give more stability to the industry; the programs necessary to ensure continued high quality on which the industry is so dependent; and the efforts necessary to meet consumer demands, preferences, and complaints. While these issues will be addressed in this Report, it is useful, for purposes of illustration, to comment here on some of them.

The dependence of the Island economy on the potato industry is well known and evident. But the more dependent an economy is on a single industry, the more vulnerable that economy is to the vagaries of the single industry. Given the instability to which the potato industry is subject, it may not be wise to pursue a policy of continual expansion of production, as is urged by many, especially since the industry finds it so difficult to bring stability to its own affairs.

The size of the industry is intimately related to the land base. The land blesses the Island industry with high yields and high quality. Given the Island industry's distance from its major domestic markets, the loss of either high yields or high quality would be destructive to its competitive position in those markets. The Island industry already has little cost-of-production advantage. Consequently, all agree that the future of the industry is dependent upon high yield and high quality. The little evidence available on land use, which is presented in Chapter 2, suggests that we may be playing recklessly with the land base and placing at risk the industry's ability to obtain continued high yields and high quality. At the very least the lack of evidence about land management suggests that the industry should be concerned and should give the matter serious attention. For the the potato industry, good stewardship of the soil is not only an environmental issue, it is an economic issue, and a question of survival.

Good soil well managed is not the only determinant of quality. Growing and harvesting techniques, adequate grading and storage facilities, effective inspection services, and quality enhancement programs can also effect quality. Other than the excellent operation at the Elite Seed Farm, quality control efforts are limited and the somewhat random inspection service produces complaints. The high cullage rate within the Island industry may point to the need for improved growing, harvesting, grading, and storage practices rather than to the existence of high grading standards.

The high cullage rate is no doubt partly the result of the absence of alternative uses for the product. No potato industry is so dependent on the national and international tablestock and seed markets as is the Island industry. Other potato industries may be heavily dependent on the processing market or on captive local markets, both of which tend to be more stable and predictable. The industry and government ought to give the search for alternative uses serious attention.

There are other matters which need attention, and these are discussed in the Report. But while the industry's energies are dissipated in continuing internal disputes about the market system, they will not receive the attention they deserve.

The Commission directs its attention to matters which are within the competence of the provincial industry and government to resolve. However, since most of the Island industry's sales are extra-provincial it is acutely affected by the practices of its competition and the international trading environment. These matters are addressed in Chapter 3.

Matters such as a national food policy, a national supply-management system, and free trade are obvious examples of matters beyond the competence of the Province, but which are of great importance to the industry.

Until a national food policy is formulated allowing the producers of agricultural products to obtain the cost of production plus a fair return from the marketplace, market intervention will be necessary or government subsidies required. Canadians pay a lower percentage of their income for food than any other consumers in a comparable country except the United States and Holland. In 1983, Canadians spent 17.3 per cent of disposal income on food. The British spent 18.5 per cent, the French 19 per cent, the Australians 20.1 per cent, the Japanese 19.5 per cent, and the Germans 21.8 percent. Canadians spent much less disposable income on food in this decade than in the 1960s; in 1963, they spent 23.2 per cent of disposable income on food.[3]

Given these statistics, the actions of organizations like the Consumers' Association of Canada to oppose efforts by farmers to put in place national marketing agencies and supply-management schemes need to be examined. Given the nature of the Canadian society and economy, one might think that the Consumers' Association of Canada would be more concerned with some industrial giants and less concerned with the efforts of Canada's agricultural producers to obtain a fair return for their product.

A most recent example of this was the brief presented by the Consumers' Association of Canada to the National Farm Products Marketing Council on 27 February 1987. This Council is responsible for making recommendations to the federal Minister of Agriculture on the establishment of national agricultural marketing agencies in Canada. In the early part of 1987, the Council conducted hearings in several Canadian centres on the merits of establishing a national marketing agency for potatoes.

The Consumers' Association has a number of arguments against supply management such as the cost of value on quota, excessive surplus removal costs, and excessive promotion and advertising costs. However, one of the strongest arguments centers on its impact on low-income Canadians. In its brief to the National Farm Products Marketing Council, the Asssociation stated:

> Producer income increases through mandatory supply control while regulated prices have a greater impact on low income families whose food budget occupies a much higher portion of total household income and who rely much more on potatoes as a basic food [sic]. CAC therefore recommends a national marketing agency without supply management powers, supplemented as necessary by support payments or form of income security program. Explicit taxpayer costs affect consumers in a progressive fashion - higher income consumers are more able to absorb the cost and bear the burden of income redistribution.[4]

The Consumers' Association's argument means that low-income Canadians such as farmers should not organize to raise their incomes because it would negatively affect other low-income Canadians. It would therefore follow that no Canadian worker should form or join a labour union because increased wages would negatively affect, for instance, the rural poor who will pay more for goods and services.

The intervention of the Investigative Branch of the federal Department of Consumer and Corporate Affairs at the Charlottetown hearings of the National Farm Products Marketing Council reveals the social and political pressures under which the agricultural community operates. Mr. Bryan Finlay, representing the Director of the Investigative Branch, persisted in introducing evidence, such as the Report of the Royal Commission on the Economic Union and Development Prospects for Canada (MacDonald Commission), which questioned the principle of supply management.[5] In effect, the representative from Consumer and Corporate Affairs was questioning before the Farm Products Marketing Council the appropriateness of government policy and of a law passed by the Parliament of Canada. Questions of public policy more appropriately belong in the Parliament of Canada where laws pertaining to supply management are made. Debate on public policy should not be initiated by government agencies on a public stage designed to discuss the implementation of a law of Canada.

The farm community should also take note of the comments of the Report of the Royal Commission on the Economic Union and Development prospects for Canada. The Commission comments as follows:

> Commissioners assume that in general, Canadians support the goal of augmenting and stabilizing farm incomes. Nevertheless, national supply-management marketing boards represent an expensive way to meet a perfectly acceptable social goal. One alternative would be a scheme that reduced the extent of income fluctuations experienced by the producers, instead of supporting their level of income, as such marketing boards do. Unlike the boards' methods, an income-stabilization scheme would smooth out market risks without generating efficiency losses. The Western Grain Stabilization Act and the Agricultural Stabilization Act might serve as models for a program of this kind. This Commission recommends that the federal government, the provinces, farm groups and consumer associations commit themselves to the task of designing and implementing other possibilities such as an income stabilization scheme. We further recommend that Canada move gradually to phase out supply-management marketing boards.[6]

While the MacDonald Commission recognizes as a perfectly acceptable social goal the "augmenting and stabilizing [of] farm incomes," the farm community and certainly the potato industry should view with caution the recommendation that Canada move gradually to phase out supply-management marketing boards and the suggestion that income stabilization may be a preferable solution. The MacDonald Commission provides in its Report little evidence of the social and economic costs associated with such stabilization. Like the Consumers' Association of Canada, the MacDonald Commission may be suggesting a solution that creates continuing dependency on support payments, and may be encouraging an increasingly "costly" and "inefficient" agricultural industry. Stabilization may treat only the symptoms and not the disease.

The activities and views of the Canadian Consumers' Association and the MacDonald Commission are referred to only because they are illustrative of the social and political environment in which the agricultural community is required to operate. At no other time in Canadian history has it been more necessary for farmers to be united and vigilant in pursuing their interests. Farmers no longer constitute a major political constituency. This is true for Canada generally, and to a lesser extent for Prince Edward Island. As a result, political institutions are likely to be less sensitive to the concerns of agriculture, as competing interests demand a greater share of governments' agenda and resources. For farmers, organization and unity has become more important than ever before. The agricultural community in Prince Edward Island is more fortunate than most, both because it remains the primary industry of the province and because it has remained high on the agenda of successive governments. If the industry has not always commanded the attention it thought it deserved, this has more often than not been the result of divided interests within the industry itself.

While a free trade arrangement with the United States - such as is being discussed as this Report is printed - is clearly another matter which may affect the industry, it is clearly beyond the sole competence of the Province. When this Commission began its work, the negotiations with the United States were in their early stages and their outcome uncertain. The Commission judged at that time that free trade was a matter which extended so far beyond the interests of the potato industry that its consideration should be set aside. It is, however, another example of the need for the industry to give its attention to matters other than those with which it has been concerned in the past.

In approaching its mandate the Commission has been conscious of the provincial, national, and international environment in which the potato industry operates. Of necessity, the Commission's recommendations must be limited to areas within provincial jurisdiction. It comments, where necessary, on other matters, while being aware at all times that the provincial government and the Island industry can act only on matters within their competence. But because so many matters are outside the competence of the province, it is all the more necessary to act upon those within its competence.

FOOTNOTES

1. Prince Edward Island Department of Agriculture, Prince Edward Island Potato Statistical Summary 1985 (Charlottetown: Department of Agriculture, 1985), Table 49.

2. Prince Edward Island Department of Agriculture, Agricultural Statistics 1985 (Charlottetown: Department of Agriculture, 1986); and, David C. Warren, A Commercial Study of Dutch Potato Exports (Oxford: Potato Marketing Board, 1986).

3. Linda G. Robbins, Handbook of Food Expenditures, Prices and Consumption (Ottawa: Agriculture Canada, 1986), p. 275.

4. Submission of the Consumers' Association of Canada to the National Farm Products Marketing Council respecting the Proposal of the National Potato Agency Task Force for a Program for Marketing Potatoes in Canada, February 27, 1987 (Ottawa: Consumers' Association of Canada, 1987), pp. 6-7.

5. National Farm Products Marketing Council, In the Matter of a Hearing Into the Merits of Establishing a National Marketing Agency for Potatoes, Vol. II (Ottawa: Angus, Stonehouse & Co. Ltd., 1987), pp. 391-414.

6. Report of the Royal Commission on the Economic Union and Development Prospects for Canada, Vol. II (Ottawa: Minister of Supply and Services, 1985), p. 431.

CHAPTER 1

Recent History of Prince Edward Island Potato Marketing: The Seeds of Dissent

The potato industry on Prince Edward Island has had an economic significance which predates this century. However, it is in the current century that the industry has taken on major economic significance, the impact of which is felt not only by industry participants, but Island society in general. In 1907, the approximate value of the Island crop was $1 million on 4 million bushels of potatoes.[1] In the 1986-87 marketing year, it is anticipated the crop will reach a value of over $100 million. In a small province, agricultural activity of such magnitude constitutes a major industry. In Prince Edward Island, where agricultural, economic, and employment alternatives are limited, the potato industry has become a major economic activity attracting numerous farmers and marketers, and creating employment for many others.

As the producers of potatoes, farmers have a natural interest in achieving the best price for their product. As a result, a great deal of attention in the past has focused on the most efficient and cost-effective manner of marketing Prince Edward Island potatoes. Such efforts have intensified in recent years as the industry has expanded and gained momentum. Provincial marketing boards and plans have come and gone, as have various schemes for regional and national marketing bodies. Much marketing legislation has been passed, and judicial cases have been fought all the way to the Supreme Court of Canada. Yet a marketing system meeting the approval of government, producers, dealers, exporters, and marketing boards, has thus far eluded the potato industry on Prince Edward Island. This chapter will outline the historical evolution of potato marketing from the 1920s to the present time.

The genesis of the desire for an effective and comprehensive marketing system for Prince Edward Island potatoes can be traced back as far as 1920. In April of that year, the Potato Growers' Association was formed and less than a year later was promoting a co-operative marketing system. In the 1921 annual report of the Potato Growers' Association, it was stated that "one particular fact evidenced is that we must resort to other ways of marketing than sitting in our offices and setting a price for potatoes.... We also think that marketing should be done co-operatively by the Association."[2] By 1924, members of this group had resolved to sign a contract agreement to market through the Association their Number One seed potatoes of the Irish Cobbler and Green Mountain varieties. Those members who defaulted on this agreement were liable to a fine.[3]

At the 1928 annual meeting of the Potato Growers' Association, Secretary J. Wilfrid Boulter reported the movement by the Association of 1,367,500 bushels of potatoes; 33,000 bushels of turnips; and 28,304 tons of fertilizer. At the same time, there was a significant rise in the membership, which now numbered 2,500 producers.[4] The future of the Association and the stability of the potato industry appeared secure. However, in the years between 1929 and 1934, an attempt by the Association to introduce a voluntary price-pooling system fell victim to apparent dealer opposition; dealers simply offered higher prices to the growers.[5] In 1934, the Agriculture Committee of the Prince Edward Island Legislature investigated allegations of price cutting by dealers, but was unable to gather conclusive evidence, and after ten years in operation the Potato Growers' Association potato pool ended.[6] Before 1950, no further attempts were made to organize a comprehensive potato marketing system.

In 1949, largely through the efforts of the Canadian Federation of Agriculture, the federal Agricultural Products Marketing Act (1949, cap. 16) was passed. As a result of the organization's planning and recommendations, Dominion legislation was made available to carry out a marketing plan.[7] The Agricultural Products Marketing Act (1949) empowered the Governor-in-Council to grant any board operating under provincial marketing laws powers in interprovincial and export trade similar to those which it exercised within the province. In February 1950, the Prince Edward Island Federation of Agriculture proposed that marketing boards be set up for potatoes, poultry, and eggs, and suggested that a plebiscite be held to determine farmer support for such mechanisms. The personnel of the proposed boards would comprise three "bona fide" producers appointed by the farmers, in addition to one representative each for independent dealers and those dealers working within the structure of co-operatives.

The Federation of Agriculture designed a plan to regulate the marketing of potatoes, eggs, and poultry, encompassing certain stipulations authorizing the boards to: (a) issue and cancel licenses to dealers; (b) fix minimum, or in some cases, maximum prices; (c) regulate shipments to certain markets to prevent flooding, etc., (d) keep dealers and producers informed of prices and marketing trends; (e) allot marketing quotas to dealers or growers, if necessary; (f) act during emergencies as a central marketing agency for the disposal of surplus products; (g) maintain uniform price levels; and (h) as far as possible, eliminate price-cutting and excess speculation through co-operation with similar boards in other provinces.[8]

Mixed reaction greeted the Federation's proposed plan for the creation of marketing boards. At a meeting between the Federation and potato dealers on 25 February 1950, "there were a few signs of hostility about the thought of farmers uniting to have some say in the marketing of their own products."[9] There was even some talk of marketing boards being the precursor of a Communist system for Prince Edward Island. This threat was used in turn to support the idea of marketing boards. At the annual meeting of the Farmers Institutes on 3 March 1950, R.A. Profitt of Freetown, past president of the Federation, stated: "What other way under God's heaven is there to fight Communism than to feed the people. There is only one known way to get clear of our surplus and that is through a marketing board."[10] Louis O'Connor, president of the Federation, reinforced the need for a marketing board: "We must have marketing boards set up here before we can have our crops subsidized...."[11]

Whatever reservations may have been held, a Federation of Agriculture plebiscite conducted in March 1950 showed overwhelming support for the creation of marketing boards. The final vote showed 6,723 in favour of establishing a board, and 35 opposed.[12] This approval cleared the way for agricultural officials to draft an official plan, conforming to Dominion and provincial legislation, and based on the principles of the Federation of Agriculture marketing scheme.

On 18 August 1950, the Prince Edward Island Potato Marketing Board was established. The purpose of the Board and its marketing plan was to: (a) encourage the production and marketing of high-quality potatoes; (b) curtail the development and spread of serious diseases; (c) eliminate unethical practices; (d) prevent unnecessary costs in the marketing of potatoes; (e) investigate and develop markets for Prince Edward Island potatoes; and (f) improve transportation and other marketing facilities.[13]

The Board was given the power to: (a) determine how potatoes would be marketed; (b) designate the agency or agencies through which potatoes could be sold; (c) prohibit the buying, selling, packing, storing, or transportation of potatoes not meeting quality standards; (d) co-operate with boards handling potatoes in other Atlantic provinces; (e) collect a levy from producers and dealers of one cent per cwt. of potatoes; and (f) license dealers and determine under what conditions they might buy, sell, transport, and otherwise handle potatoes. The Board could also fix minimum prices, and establish technical and advisory committees to further the interests of the industry.[14]

As was recommended by the Federation of Agriculture, membership of the Board comprised three producers in addition to one representative each for co-operative and independent dealers. The producer members were David Wright, Lower Montague; D.A. MacDonald, Glenfinnan; and Allie MacNeil, O'Leary. The co-operative dealers' representative was Jerome O'Brien, Charlottetown. Independent dealers initially refused to elect a representative to the Board. Col. G. E. Full, President of the Dealers' Association, cited as reasons "[that] the set-up ... [was] unworkable, and ... [because] no interpretation of the scheme had been given...."[15]

By early 1951, the independent dealers had acquiesced and nominated Col. G.E. Full to the Board, but this did little to alleviate the animosity between the dealers and the new Board. A group from the newly-formed Prince County Dealers' Association met with the Board to request that the one-cent-per-bushel levy on potatoes shipped from the province be reduced to one-half cent. The Board decided against such an action, and instead warned that dealers who did not make their levy payments by 14 February 1951 would have their licenses suspended.[16]

At the annual meeting of the Potato and Turnip Dealers' Association on 9 February 1951, the dealers unanimously agreed not to make levy payments until the legality of the Board's action could be determined.[17] The power of the Board to collect a levy had not been given legal standing prior to 30 December 1950, and it was doubtful not only whether these powers could be made retroactive to 1 November 1950, but if in the first place the Board could legally tax dealers.[18] The dealers decided that a test case might be necessary and, given that eventuality, all members agreed to share legal costs.

In the summer of 1951, the independent potato dealers, represented by H.B. Willis Incorporated, took the Board to court to determine the legality of the levy. Two questions were to be considered: whether or not the Board had the authority to impose a levy, and if, in fact, the Agricultural Products Marketing Act (1949) was actually valid. The Prince Edward Island Supreme Court met on 27 July 1951 and all parties agreed that, regardless of the decision made by the provincial court, an appeal to the Supreme Court of Canada would almost certainly follow. In view of this, it was decided to remove the case directly to the higher court.[19] The Supreme Court of Canada, in turn, insisted that the provincial court first make a decision before passing along the case.[20] Thus, in December 1951, proceedings began in the Supreme Court of Prince Edward Island.

The case centered on two particular questions. The first question was whether or not the Dominion Government had the authority to delegate to a provincal marketing board the control of interprovincial and export trade. The second question was whether the levy was a tax, or a charge for services rendered by the Board. K.M. Martin, counsel for the nominal defendent H.B. Willis Incorporated, argued that it was "reprehensible" to allow the Dominion government to delegate legislative authority to any subordinate part of a provincial legislature. Furthermore, with reference to the levy, Mr. Martin claimed that "as a tax it has the least excuse for existence of any tax I ever saw."[21]

R.J. Milliken, counsel for the Board as plaintiff, pointed out in his presentation that the Agricultural Products Marketing Act (1949) authorized the Governor-in-Council of Canada to confer upon a board or agency like powers in connection with the marketing of a product in interprovincial and export trade. Counsel for the Board also argued that this same act "authorizes the

Lieutenant-Governor-in-Council to approve schemes to regulate within the Province the marketing of products." With regard to the levy, Mr. Milliken pointed out that Order Number Two of the marketing plan, which placed on dealers a levy of one cent per cwt. of potatoes shipped or exported, had been repealed and replaced by Order Number Six, which applied the levy to producers instead of dealers. He stated that while there might be doubt regarding the Board's authority to pass and enforce Order Number Two, "there could be no doubt concerning Order Number Six."[22]

The Prince Edward Island Supreme Court rendered its decision on 31 January 1952; the Board levy was unanimously ruled invalid. It was held that "the Board, being a purely provincial creation, and in no way responsible to the Parliament of Canada, could not receive delegated powers from the federal Government."[23] The judgment went on to rule that the powers to regulate transactions wholly within the province, conferred on the Board by the Provincial Legislature, were valid, but that the scheme in general was ultra vires, because the federal government had no authority to delegate such powers to the province.[24] Regarding the levy, and in particular Board Order Number Six, Justice Tweedy stated: "[It is] clearly far in excess of the valid requirements of the board for intra vires administration and must be taken to be imposed in contemplation of activities beyond the jurisdiction of the Board."[25]

Reaction to the Supreme Court decision was not unexpected. Lincoln Dewar, Secretary of the Federation of Agriculture, stated that the "present situation is one of numerous setbacks which agricultural producers have received in their efforts during the past twenty odd years to gain a measure of control over the marketing of their own products." On behalf of shippers, Col. G.E. Full stated that the intention of the levy was "to accumulate a fund so that the Marketing Board could branch into active marketing itself with the working capital thus accumulated, and force all potatoes ... to pass through their hands."[26] This belief was, in effect, the motive behind the dealers' decision to take the case to court.

On 30 June 1952, the Supreme Court of Canada upheld the Board's appeal regarding the legality of the Agricultural Products Marketing Act (1949).[27] However, it ruled the Board had no right to establish or collect a levy on potatoes shipped or exported, as the levy was in fact a form of indirect taxation. As well, the higher court ruled that the Board had no authority to enter into agreements with marketing boards in Nova Scotia, New Brunswick, or Newfoundland. Such co-operation was an encroachment upon the scheme of interprovincial and export trade, and thus in contradiction of the British North America Act (1867).[28]

The declaration of the levy as invalid presented the Board with a dilemma, as it was left with no revenue to support its activities. At a meeting on 1 October 1952, the problem was solved. Producers passed a resolution endorsing the collection of a licensing fee from growers for the purpose of supporting the Board.[29]

In August 1953, under provisions established by the Agricultural Products Co-Operative Marketing Act (1939, cap. 5), the federal Minister of Agriculture was granted authority by P.C. 1953-1299 to enter into an agreement with the Board to market a portion of the year's Island potato crop on a co-operative basis. This decision brought to reality the earlier fears of independent dealers. Under the agreement, the Board was established as the sole potato-selling agency for the province. Five separate and distinct pools were instituted to cover tablestock, Cobbler seed of Foundation and Certified grades, and other varieties of Foundation and Certified Seed. A payment would be made when potatoes were delivered to the Board, and if an amount greater than the initial payment and actual selling cost was derived from the sale of the potatoes marketed, a further final payment was payable to the producers at the end of the season.[30]

Under the agreement, the Board as Selling Agency paid specific prices to producers for delivered potatoes. The initial payment to the grower for the 1953 crop was 45¢ per bushel. The Dominion government guaranteed the Board this price, plus a specified maximum for handling charges. When all potatoes were sold, the Board received from the federal government the difference between the guaranteed price, plus handling costs, and the price at which the potatoes were actually sold. The guaranteed price was approximately 40 per cent of the returns for the previous three years.[31] Later in the season, the price was increased to between 50¢ and 55¢ per bushel. D.A. MacDonald, Chairman of the Board, stated "that for the present at least, it [the Selling Agency] is on an optional basis and this fact should tend to eliminate criticism from any source."[32]

In February 1954, however, the Board took further action. Record movement of potatoes from the Maritimes during the latter part of 1953, and a surplus of Maine potatoes selling at low prices in the early part of 1954, resulted in a substantial decline in the movement of Prince Edward Island potatoes. At the same time, some dealers were shipping carloads of Island potatoes to central Canada on a consignment basis, which resulted in a lack of uniformity in selling quotations and serious losses to shippers and producers.[33] In an attempt to cope with this potential crisis, the Board announced certain changes in the administrative policies of the Selling Agency, which would result in the takeover of all domestic sales of seed and tablestock potatoes.

The new Board policy stipulated that dealers would not be permitted to make sales unless their purchasing account with the Board, as Selling Agency, was paid in full. As well, no purchase orders would be issued unless the order was placed with the Board. Upon receipt of orders, the Board would divide the requests among the dealers. Finally, no carloads of potatoes would be accepted which had not been loaded with the permission of the Board.[34]

On 18 March 1954, the Federation of Agriculture in its annual presentation to the Provincial Legislature, asked that the Board, at the earliest possible date, hold a plebiscite on the potato marketing scheme.[35] Although Federation members expressed approval for the Board's decision to adopt a central sales policy, it was agreed that farmers should have an opportunity to vote on the issue.[36] The Federation's request was granted and a plebiscite date was set for May of 1954.

In April, with the plebiscite date only a month away, the Board announced that it was making further changes in Selling Agency policies. At a meeting of the Potato Dealers Association in Summerside, Board chairman D.A. MacDonald explained why these changes were necessary:

> In some cases invoices given to the board by certain shippers were not true invoices. Excess brokerage in some cases were being paid, and some dealers were getting more than their share of the movement.
>
> In order to cut out these factors, we were practically forced to take over the actual invoicing and shipping ... [of both seed and tablestock potatoes on the domestic market].[37]

This action meant that dealers and assemblers could no longer quote prices on carloads of potatoes, but would be paid on commission for their work. Dealers with export orders would purchase potatoes from the Board. In response to concerns expressed by growers regarding crops in storage, Chairman of the Board D.A. MacDonald assured producers that a payment of 55¢ per bushel would remain in effect for the balance of the 1953 crop.

Island dealers did not react favourably to the Board's actions. At the 23 April 1954 meeting of the Potato Dealers Association, there was a great deal of dissatisfaction expressed regarding the amount of control the Board was exerting over the industry, and how this was impacting on trade. Col. G.E. Full, president of the Association, stated:

> There is in that scheme [Selling Agency] a complete and absolute autocratic authority, and when that authority can be used by a majority, I am afraid of it.
>
> Trade should not come by forcing it on others.... There is more to marketing potatoes than establishing a price and an autocratic agency.... Farmers should be told the whole truth of the matter, and if they want a compulsory pool it is up to them, but a compulsory pool has no place in it for a dealer, or for any service.[38]

During the month prior to the plebiscite vote, the Federation of Agriculture sponsored a series of province-wide information meetings. D.A. MacDonald, Chairman of the Board, spoke at each gathering, explained in detail the Board's central selling policy, and entertained questions and comments from the floor. The most heated opposition to the Board's selling policy was voiced by industry dealers.

Leslie Simmons, a dealer from Summerside, spoke in O'Leary, stating that he

> did not agree with the autocratic powers that had been delegated to them [the Board] and that there were things they attempted to do and were allowed to do that should not exist in a democratic country.[39]

Mr. Simmons went on to claim that the Island's potato dealers had done more for the industry than had the Board. Austin Scales, a producer-dealer from Freetown, spoke out at meetings in Summerside and Charlottetown. On the latter occasion, he questioned the need for a potato board with marketing powers, and stated that he "could not see how the Board, as it presently exists, could succeed" when he "knew its principles to be unsound."[40] Although Mr. Scales insisted he was speaking as a producer, other growers at the meeting challenged his motives.

Another prominent dealer, H.B. Willis, spoke against the Board and the Selling Agency in Montague and Morell. He sharply criticized the Board for past "dictatorial" actions, and cautioned growers in Morell that with "the powers at their disposal the Board could say when and at what price the farmer would sell his potatoes."[41] When challenged by a grower to offer an alternative solution to the industry's plight, Mr. Willis responded that "supply and demand on the potato market would take care of the situation."[42] At other meetings, John Rayner attempted to have passed a resolution asking that a second question be added to the plebiscite ballot addressing the issue of the Selling Agency. In O'Leary the motion was defeated two to one, while in Summerside Mr. Rayner was unable to find one person among the approximately 225 attending who would second his motion.[43]

The placement of a second question on the ballot represented the only opportunity dealers would have to rid the industry of the central agency. However, it was evident throughout the public meetings that dealer sentiments were not shared by a majority of industry participants, and for the moment dealers were forced to accept defeat.

The question which appeared on the plebiscite ballot asked producers: "Are you in favour of the continued operation of the P.E.I. Potato Marketing Board?" The unsigned ballot results indicated 3282 (64 per cent) were in favour of the continuation of the Board, while 1845 were opposed. Of the 6747 registered voters, 5140 cast ballots.

With the support of a majority of potato producers behind it, the Board introduced a new general policy in September 1954. The new marketing program stated that "the Potato Board shall designate a Marketing and Selling Agency, which shall be the only Agency permitted to accept or purchase potatoes from producers in Prince Edward Island for movement out of the province, and which shall be the only Marketing and Selling Agency authorized to purchase or market or sell potatoes."[44] In other words, the Board would continue and expand its role as central potato agent for the province.

As part of its new strategy, the Board again proposed a pooling system, under which there would be four separate pools: (1) tablestock No. 1; (2) certified seed; (3) certified foundation seed; and (4) other grades of tablestock and varieties of seed. Along with the pool classifications, there would be five separate pool periods throughout the season.[45]

Even more significant than the pooling system was the proposal for two distinct classes of dealers. Class "A" dealers were permitted to act as assemblers of Island potatoes. They would have the right to sell potatoes from the agency, and could enter the export market. Class "B" dealers could assemble potatoes for sale and shipment by truck or small boat, but not steamer, to points in New Brunswick, Nova Scotia, and Newfoundland. Specific qualifications were listed for each class of dealer in regards to their financial position, past experience, and warehouse facilities.[46]

The Board's new policy met with strong opposition. On 29 September 1954, the Federation of Agriculture held a meeting at the Charlottetown Forum, at which time a resolution was placed on the floor asking for support of the Board's proposed pool marketing system. Well over 5,000 people attended the meeting, which at times was marred by hecklers who refused to allow speakers to continue.[47]

D.A. MacDonald, Chairman of the Board, speaking in favour of the resolution, outlined the circumstances which led to the Board's decision to formulate the new policy. He stated that in the previous year the "dealers [had] said [the central selling agency] would be unnecessary and very harmful, but they were all very happy to take advantage of it before the year was out, and many of them received its benefits."[48] In concluding his remarks, MacDonald reminded those attending that less than six months previously, the Board had "received one of the strongest mandates that was ever given any governing body."[49]

Leslie Simmons, a dealer from Summerside, spoke against the resolution, and placed under attack not only the Board, but D.A. MacDonald himself. He stated that the dealers had no quarrel with the Marketing Board: "You need to be organized, but not as it is conducted today by the Marketing Board." He also declared that "Mr. MacDonald is drunk with power," and wondered whether the Board would "have all dealers and growers relegated to the status of mere vassals." Simmons suggested that the dealers would co-operate with the Board, "if the compulsion were taken out of it."[50]

E.D. Reid, a Charlottetown dealer, also spoke against the motion and claimed that the plebiscite of June 1954 had been "a bogus vote" because "the issue had not been made clear and many people were confused."[51] Frank Bryant of Cascumpec accused D.A. MacDonald of deliberately being vague about the Board's policy during the public hearings prior to the plebiscite, and he added: "We decided to petition the Government, to save us from the dictator which had crept in the back door."[52] Donald Anderson of St. Peters declared, "[W]e are losing our freedom by compulsory marketing," and stated that it was "inconceivable that an inexperienced group of bureaucrats could take over and handle a crop of 6,000,000 bushels."[53]

Speaking in favour of the resolution, Charles Yeo of Lot 16, a director of the Federation of Agriculture, warned: "If you throw this board out, you will have destroyed what has taken years to arrive at ... and it might take another generation before you will get anyone interested enough to look after your affairs." He also charged that "false propaganda" about the Board was being spread, and implored those involved in the potato industry at least to try the policy for a period of one year.[54]

Before the end of the evening, the resolution was defeated by a strong majority. Those who attempted to voice support for the Board and the resolution frequently were met with jeers and catcalls. In a letter to the Editor of the Guardian one week later, in reference to the Forum meeting, one grower claimed there were people at the gathering who had no reason to be there:

> [D]ealers of every commodity, politicians, employees of dealers, wives and families of Board opponents.... There was an obvious attempt that seemed to be organized to discredit Board spokesmen ... [and] constant interruption by groups here and there whose main interest [was] to kill Board arguments.... Speakers opposed to Board plans employed every possible means to influence the audience.[55]

As a direct result of the controversy surrounding the Board's new policy, Premier A.W. Matheson decided to call for another plebiscite, to be held 10 November 1954. "I was hopeful," stated the Premier, "that the

Board's activities could be held in abeyance. I would have preferred not taking a vote, but I can see no other way out."[56] This time the ballot would contain two questions: "Are you in favour of retaining the P.E. Island Potato Marketing Board?" and "Are you in favour of the Potato Marketing Board operating a compulsory one desk selling agency?"

The results of the plebiscite sustained the Board with a two to one majority, but the one-desk selling agency was toppled by a slim margin of 285 votes. On the first question, the count stood at 3958 in favour of retaining the Board, with 1977 against. The second question regarding the one-desk agency revealed 2706 in favour of such an operation and 2991 against.[57] The strategy of the dealers was finally successful. The placement on the ballot of the second question afforded voters the opportunity to support the Board while opposing one-desk selling.

Analysis of the plebiscite results indicates that Kings County supported one-desk selling with a majority of over 400 votes; Prince County rejected the concept by almost 100 votes; and Queens County turned down the scheme with a margin of over 600 votes. Thus the November plebiscite signalled the demise of the Board's role as the sole selling agent for Prince Edward Island potatoes.[58] It is possible that an improvement in the price of potatoes may have influenced the outcome of the vote; the average price received per cwt. in 1954 was $2.12, as compared to 80¢ in 1953.[59]

After the 10 November plebiscite, the Board proceeded to wind up the affairs of the Selling Agency, and then turned its attention to promotional activities. On 7

June 1955, Premier A.W. Matheson informed D.A. MacDonald, Chairman of the Board, that it was the government's intention to appoint a new potato board.[60] On 25 July, in a letter to the Premier, MacDonald asked that the government make known its plans for the Board, so that decisions could be made regarding the upcoming marketing season.[61] The premier's response came almost a month later on 23 August.

> ... New members from the Provincial Civil Service will be appointed immediately. If it is found that this policy of appointing civil servants to be unsatisfactory, consideration will be given to making appointments outside the Government service.
>
> The sections of the scheme for marketing of potatoes will be amended to provide for the immediate appointment of members to fill vacancies. Changes will be made in appointments with the hope that unanimity can be obtained. The Government is desirous of having a Board which will not work out policies for the Government....[62]

Four days later, Premier Matheson made public the government's plans for the Board and announced changes in the Board's composition. Instead of six producers, three dealers, and one representative for co-operatives, the Board would now comprise five producers and five dealers. The Premier claimed that the new board had "all the authority of the old, except for the fact that the terms of office for the members was 'at the pleasure' of the Government."[63] The stated mandate of the new Board was twofold: (1) to promote and improve marketing conditions; and (2) to deal with disease control.

Three of the original Board members - D.A. MacDonald, David Wright, and Allie MacNeill - although retained in the government appointments, resigned in protest. Speaking for the three former Board members, D.A. MacDonald stated: "It is our considered opinion that we cannot remain members of the new Potato Board and at the same time remain true to those principles to which we have always subscribed."[64] On 8 September 1955, the government appointed three new members to fill the vacancies created by the resignations. All three appointees - Frank Jardine, Roland A. MacDonald, and Neil D. MacNeill - were also members of the Federation of Agriculture Board of Directors.[65]

In March 1956, the Legislative Assembly enacted An Act Respecting the Marketing of Agricultural Products (1956, cap. 23), also known as the Marketing Act (1956). The purpose of this Act was "to provide for promotion, control, and regulation, in any or all aspects, of the marketing of agricultural products within the province."[66] It stipulated that marketing boards would be producer-controlled and producer-elected. The Marketing Act (1956) further stated that the support of 66 2/3 per cent of eligible voters was necessary to determine the acceptability of a marketing board, and that such boards as were established would be responsible to the Minister of Agriculture. Minister of Agriculture Eugene Cullen stated that "the principal difference between the new and the old act was that the Provincial Marketing Board was done away with."[67]

The Marketing Act (1956) empowered the provincial government to appoint six producers and two dealers to the Board. In its first year of operation, the new Board devoted most of its efforts to disease control, promotion, and dissemination of market information. Throughout 1956 and

1957, the Board acted as an official agent in negotiations with railways for lower freight charges and with the United States for a tariff agreement.

According to the terms of the Marketing Act (1956), a plebiscite to determine producer response to the Board was to be held within eighteen months. The required plebiscite was set for 30 October 1957, and to be eligible voters had to be at least 21 years of age and grow one acre of potatoes. The voters were asked: "Are you in favour of retaining the Prince Edward Island marketing plan?" The response was negative, with 1118 ballots marked against the plan and 1106 ballots in favour. Queens County was the only area that supported the plan, but with a slim majority of 160 votes. A small turnout - only 2200 returns from over 6000 registered voters - appeared to signify a general lack of interest and support for a Board concerned only with promoting and improving market conditions and disease control.

Despite the plebiscite results, the provincial government chose to keep the Board intact for the duration of the marketing season. Eugene Cullen, Minister of Agriculture, stated that the action was not meant to be interpreted as "being in defiance of the Island farmers'" decision as expressed in the plebiscite held 30 October. Rather, it was meant "to give producers time to replace it with some other organization more suitable to them."[68] The only question remaining regarded the type of organization which would replace the Board.

The Federation of Agriculture appointed a special committee under the direction of Frank Jardine to make recommendations for an organization of potato growers. In

January 1958, the nine-member committee suggested that other non-active potato groups amalgamate to form one province-wide organization under the name, constitution, and by-laws of the Potato Producers' Association. The new Association was formed on 21 April 1958 and on 3 July it elected 18 directors, with the intent that they would in fact become the producer-members of a new marketing board.

The Potato Producers' Association was given the task of designing a new potato marketing board which would have the authority to impose levies. In the meantime, the Board continued to guide sales, ensure quality, direct promotional efforts, work on disease eradication, and await the Association's recommendations. In October 1959, Premier Walter R. Shaw advised the annual meeting of the Potato Producers' Association to

> set up one overall organization which will represent the potato producers of the province and from this organization the producers will appoint their own Marketing Board, Promotional Committee, and other subsidiaries required to carry on the affairs of the industry.[69]

In 1960, steps were taken to revitalize both the industry and the Board. Premier Shaw, in his response to the Speech from the Throne, stated that the Board was "not fulfilling the function for which [it] was intended," and he hinted at changes to come when he said he intended "to put the industry back in the hands of the industry."[70]

On 13 April 1960, An Act to Amend an Act Respecting the Marketing of Agricultural Products (1960, cap. 25) was assented to, extending the authority of the Board to impose a 1¢ per cwt. levy on all potatoes shipped from the Island, and a $1.00 license fee on all Island shippers. This in turn enabled the Board to establish a potato fund to support promotion and disease eradication. In addition, the Board was given the power to recover any license fees, levies, or charges by suit in any court of competent jurisdiction, and to cancel any license for associated violations. Upon the recommendation of the Potato Producers' Association, a provisional marketing board was established, to be effective until 30 June 1961. Furthermore, the provincial government announced that the Board's composition would be changed to three producers, three dealers, and three representatives of the P.E.I. Co-operative Union, effective 1 September 1961. On 8 September 1961, Board Order No. 35, signed by chairman R.L. Burge, provided for the Board's implementation of the amended Act.[71]

In 1962, the provisions of the Marketing Act (1956) came under scrutiny in a case brought before the Prince Edward Island Supreme Court. Sterling Hackett of Mount Albion was charged by the Board with trucking potatoes out of province without an invoice from a licensed dealer in good standing. In addition, Hackett failed to pay the levy at the point of exit, Wood Islands. Ultimately, the charges were dismissed and the practices of the Board declared illegal. In his ruling, Magistrate Johnston noted:

> Subsections E and F of section 11 of the P.E.I. regulations authorizing the fees and levies were confined to the marketing of potatoes within the province, but that a subsequent amendment to the federal Agricultural Produce Marketing Act, had extended those sections to interprovincial marketing.
>
> Later the provincial government-in-council [sic] had rescinded these sections,

> and re-enacted new sections, which again limited the powers of the board to impose fees and levies to within the province of P.E.I....
>
> To enable the board to again resume its powers covering interprovincial marketing of potatoes, ..., a subsequent amendment to the federal act should have been enacted.[72]

The Temporary Plan re Potatoes, under which the present-day Board is constituted, became effective in 1963. On 1 November, a provincial government Order-in-Council (663/63) established a Potato Marketing Board for a period of 18 months, and on 5 December 1963, the Government of Canada passed an Order-in-Council (P.C. 1963-1767) to extend the powers necessary to administer the Temporary Plan and collect levies. The purpose of this plan was "to encourage the production and marketing of high quality potatoes; to curtail the spread or development of serious potato diseases; to eliminate unethical practices and to prevent unnecessary costs in the marketing of potatoes; and to improve transportation and other marketing facilities."[73] Under the Temporary Plan, the Board became a marketing agency with the power to designate selling agents for potatoes. On 13 December 1963, the Board unanimously passed an order designating licensed shippers as selling agents.[74]

By the spring of 1964, low potato prices prompted growers to look beyond the dealers for solutions. At a 30 March meeting sponsored by the Federation of Agriculture, 800 to 900 farmers called for both an immediate plebiscite and a one-desk selling agency. Only one farmer, Malcolm Bradshaw, opposed the resolution. The meeting proposed that the one-desk selling agency would handle all seed and export business; however, it was believed that all that might be required for tablestock would be organized, supervised selling.[75] The Federation of Agriculture immediately responded to these proposals with the appointment of a Potato Committee to work out details for the plebiscite with the Minister of Agriculture, Andrew MacRae.[76]

The governnment asked the Potato Committee to submit a detailed plan explaining how a one-desk selling agency would operate, and where its financing would come from. When such details were not forthcoming, the government refused approval of the plebiscite. The Potato Committee stated that

> after the passing of over three months and the holding of a number of meetings with the [Agriculture] Minister, the committee is greatly concerned that there appears to be a lack of understanding on the part of the government of the very serious problem faced by the industry, and the very urgent need for modernizing techniques.[77]

Interest in the plebiscite waned as farmers busied themselves with the new marketing season. By mid-November 1964, potato prices had almost doubled and the demand for a one-desk sales agency subsided.

Under the terms of the Temporary Plan, a plebiscite was to be called within eighteen months to vote on the marketing scheme; the date was set for 21 April 1965. Prior to the vote, Andrew MacRae, Minister of Agriculture, announced that effective 31 May the composition of the Board would change to three dealer- and six producer-representatives. Each member would be subject to re-election every year, and no representative could serve longer than three consecutive years. However, for the purposes of the plebiscite, producers would be voting on the Temporary Plan itself and not on the make-up of the Board.[78]

There was not a great deal of interest displayed in the upcoming plebiscite, perhaps because there was no controversy surrounding the Board as had existed in previous years.[79] The ballot question asked: "Are you in favour of the temporary Plan under which the present P.E.I. Potato Marketing Board was established late in 1963?" The plebiscite results showed 1398 for and 540 against the Temporary Plan; however, only 40 per cent of those registered actually voted. Nevertheless, the favourable outcome of the plebiscite made permanent the Temporary Plan re Potatoes.

In March 1966, a new potato producers' organization was formed in Kings County under the leadership of George MacDonald. The Potato Farmers Association claimed that the Potato Producers' Association had a small membership and accomplished nothing, while the Board was more interested in the problems of dealers than those of producers.[80] The new Association proposed plans for better potato production and marketing, including daily market price bulletins, daily reports on blight and other diseases, and a check on the composition and price of fertilizer.[81] Speaking for the Potato Producers' Association, Leith Townshend, Leslie Underhay, and Donald Anderson suggested at a public meeting that the Potato Farmers Association amalgamate with their group.[82] Although no decision regarding this possibility was made during the meeting, little more was heard from the Potato Farmers Association.

By the spring of 1967, the Potato Producers' Association had finally become a member organization of the Federation of Agriculture. At a Federation-sponsored potato industry conference in April, a watch-dog committee was set up to improve quality; seek new marketing opportunities; improve liaison between the Board and growers; and aid the Department of Agriculture to strengthen disease control and extend the reputation of quality Prince Edward Island potatoes.[83] A year later, it was unclear whether or not these recommendations had been carried out.[84]

In 1968, potato prices dropped to $1.15 per cwt. and producers once again called for a one-desk selling agency. At the annual meeting of the Federation of Agriculture, a resolution was put forth calling for the prompt reorganization of the Board, one-desk selling of seed, and the establishment of a national potato commission. Producer control of the Board was stipulated, with bona fide growers in each county nominating and electing members.[85]

The Potato Committee of the Federation of Agriculture immediately proposed a new potato marketing plan. A central brokerage system was suggested as the sole agency offering Island potatoes on the market. A teletype system located in Charlottetown would link all major wholesale and retail outlets in the central Canadian domestic market, thus eliminating the need for brokerage houses in that region. Registered dealers and shippers in the province would be linked to the system, which would place all orders for the domestic market. The network would operate also on the export market by obtaining orders and negotiating with dealers to fill sales orders on agreed prices.[86] Despite a great deal of enthusiasm on the part of the Federation of Agriculture, the Potato Producers' Association opposed the proposed central brokerage agency and the plan went no further.

The Prince Edward Island Comprehensive Development Plan brought with it more attempts to organize the marketing of Island potatoes. Passage of the Natural Products Marketing Act (NPMA) (1969, cap. 42, s. 1) allowed for the establishment of commodity boards in Prince Edward Island. This enabling legislation granted producers of any given commodity the opportunity to take an active role in the control and marketing of their product. The NPMA (1969), which was intended to be comprehensive and bring all commodities, including potatoes, under its scope, soon became the centre of controversy within the industry.

From the perspective of the Board, the new legislation presented two serious threats.[87] First, it would constitute a repeal of the Marketing Act (1956), and create a marketing board which would be producer-elected and producer-controlled. Second, whereas the existing Board was responsible solely to the Minister of Agriculture, the NPMA (1969) would bring with it two new masters; marketing boards created under the new legislation would report to a supervisory board - the Prince Edward Island Natural Products Marketing Council - which would, in turn, report to the Minister of Agriculture. In addition, producers would be given two avenues to appeal Board decisions, where none had been available before. Dealers were also concerned; marketing boards created under the NPMA (1969) could operate supply-management systems, thus curtailing their activities.

Section 19 of the NPMA states:

> 19. (1) Where the producers of a natural product, regulated under this Act vote at a plebiscite to discontinue the operation of a commodity board and to have the natural product regulated by a marketing commission or where the Lieutenant Governor in Council upon the recommendation of the Prince Edward Island Marketing Council decides that a regular product could be more efficiently and effectively regulated by a marketing commission under Part III of this Act, the Lieutenant Governor in Council may revoke any orders in council or regulations relating to the establishment of the commodity or marketing plan, the constituting of a commodity or marketing plan, and the appointment of members of the commodity board and may transfer all assets and liabilities of such commodity board to a marketing commission established as successor thereto under Part III of this Act.
>
> (2) The powers vested in the Lieutenant Governor in Council under subsection (1) may be exercised by him in relation to any commodity boards established under this Act or under the Agricultural Products Marketing Act, R.S.P.E.I. 1974, Cap. A-6 or any marketing boards, commissions or agencies under the Marketing Act, R.S.P.E.I. 1974, Cap. M-4. 1977, c. 26, s. 12 (eff. June 18/77); 1985, c. 35. s. 10 (eff. Dec. 28/85).

It is clear that the provincial Cabinet has at any time the authority to rescind the Marketing Act (1956) and place potatoes under the 1969 law. What is not clear is why they have not done so.

By 1971, evidence showed that Island potato producers were greatly dissatisfied with existing organizations and the marketing system. A survey of 500 potato producers, conducted by the Federation of Agriculture, indicated strong consensus on several points.

Eighty-eight per cent of producers were unhappy with the potato marketing system; 77 per cent felt they could not get a satisfactory return under the current system; 89 per cent felt the Board was not doing a good job; 81 per cent favoured centralized selling of all Island potatoes; and 94 per cent favoured almost any other system but the current one.[88] Such dissatisfaction soon contributed to the proposal of several different marketing plans.

On 15 September 1971, during a meeting between Premier Alexander B. Campbell, Agriculture Minister Daniel MacDonald, and representatives from potato industry organizations, the first such plan was revealed.[89] The "P.E.I. Potato Marketing Plan," proposed by the provincial government, recommended the establishment of a commodity marketing board under the regulations of the NPMA (1969). As an interim measure, the operations of the current Board would be enlarged for a trial period of three years to include more responsibilities. Under the government plan, the Board would "give substantial stability in the market place for Island potatoes; obtain a better financial return to the producer of Island potatoes; guarantee the quality of Island potatoes to the consumer; and undertake a vigorous and ongoing promotion effort."[90]

The implementation of the "P.E.I. Potato Marketing Plan" would require extensive financing, provided by government grants along with increased license fees and levies. Dealer fees would be increased to $2500 for both the domestic and export markets. Such an increase would limit the number of dealers to the more manageable number of fifteen. Licensed assemblers would be appointed by the Board for a $25 fee, and authorized to load potatoes from the growers. For marketing tablestock, dealers would bid competitively on the market, although the Board reserved the right to establish mandatory minimum prices. For the marketing of seed potatoes, joint bidding by the agents handling seed for export would be required, and shares would be allotted by agreement, possibly based on the previous three-year supply. The government promised to grant the Board up to $185,000 over the following three years for the implementation of the plan as well as for the additional staff required. In addition, levies would be increased from 1.5¢ per cwt. to 2¢ per cwt. by 1973, 2.5¢ per cwt. by 1974, and 3¢ per cwt. by 1975.

Even though the "P.E.I. Potato Marketing Plan" added responsibilities to those already fulfilled by the Board, it did not propose extended powers; the Board still would not have the authority to establish a central selling agency or initiate supply management, and there was no provision made for the Board to change the composition of its membership. Furthermore, although the Board could set minimum prices, it had no means to dispose of surpluses to maintain minimum prices.

At public meetings called by the Federation of Agriculture and held in September 1971, opposition to the "P.E.I. Potato Marketing Plan" was evident. As a result, the Potato Co-ordinating Committee was formed by the Federation of Agriculture, comprising fifteen members (three elected representatives from each of the five agricultural districts), to study the plan and suggest alternatives or improvements.[91] On 27 September 1971, the executive of the Potato Co-ordinating Committee met with government officials. The Committee was asked to consider the "P.E.I. Potato Marketing Plan" and draw up a proposal of its own. Based on meetings with producers, and consultations with

W.J. Wise, a marketing expert from Great Britain, some basic principles of an "Alternative Plan" were outlined.[92]

The "Alternative Plan" also proposed that a marketing board be created under the provisions of the NPMA (1969). This marketing board would be producer-elected and -controlled and would comprise fifteen members, three from each of the five agricultural districts. The board would have authority to establish a supply-management system and a central exporting agency for seed potatoes. In addition, the "Alternative Plan" recommended more stringent qualifications for the licensing of dealers, as well as the provision of free facilities for dealers at the main consumer markets in central Canada. Furthermore, a uniform packaging program and widespread promotional campaign would be implemented to increase sales in the domestic market.

The marketing board proposed under the "Alternative Plan" would be financed through a $10 per acre license fee paid by all producers. Increased levies would provide for a potato stabilization fund, which would maintain a minimum price for the purchase of small surpluses. The plan also proposed that a seven-member technical advisory committee be established, comprising two licensed dealers, and one representative each from the Consumers Association, the Fruit and Vegetable Branch, the Seed Branch, the provincial government Marketing Division and Research Division.

Also recommended in the "Alternative Plan" was the immediate establishment of a fifteen-member committee to further develop the plan for presentation to both Island producers and the Provincial Marketing Board. This committee would assume the role of the present Board and have the power to enforce recommendations. It was suggested that the Board as defined under the "Alternative Plan" be established for a trial period of three years, after which a plebiscite would be held to determine its fate. At the same time, every effort would be made to initiate a national marketing board program. The "Alternative Plan" by no means represented the completed scheme of the Potato Co-ordinating Committee; it was considered to be merely a starting point. The Committee planned to meet with other organizations within the industry before formulating a comprehensive marketing plan.

The Potato Dealers Association unanimously agreed "that the whole [government] Plan be shelved."[93] In a meeting with the Potato Co-ordinating Committee, dealers expressed the desire for representation on whatever type of marketing board was developed. They had no objections to the concept of a commodity board, but voiced concern regarding any national marketing plan which might reduce Island production quotas.[94]

The Potato Co-ordinating Committee also conferred with the National Farmers Union. Since its formation in 1969, the NFU had been working on its own potato marketing plan and it was now ready for presentation. This plan focused on the concept of Crown- or government-appointed agencies "to carry out marketing policies as determined by a 'general organization of primary producers.'"[95] This "general organization" would establish and negotiate policies for all commodity groups, and a government lending agency would help finance production programs. The National Farmers Union plan recommended that a Crown marketing agency be appointed by government to handle all finances; the development of a Crown selling agency to handle the complete movement of Island potatoes to the export market; and the establishment of a dealer agency which would continue to do the job of selling. The dealer agency's financial settlements would be channelled through the Crown marketing agency.[96] The Potato Co-ordinating Committee "agreed that some of their [National Farmers Union] principals [sic] were not too much different than the committees [sic], however the success of their [National Farmers Union] plan was based entirely on a strong organization of producers at the grass roots which we do not have."[97]

The final draft of the Potato Co-ordinating Committee's marketing plan, made available to potato producers in the spring of 1972, included many of the recommendations put forward in their earlier "Alternative Plan." The purpose of the proposed "Prince Edward Island Potato Marketing Plan" was "to promote, control, and regulate the transportation, packing, grading, processing, storage, and marketing of the Regulated Product".[98] The plan called for the establishment of a marketing board, under the NPMA (1969), to be composed of fifteen producers (three from each agricultural district); appointment of a technical advisory committee; and the creation of special liaison committees from "the Dealers' Association of the Province ... to work with the Board with respect to: 1. Export markets, 2. Early market and trucking trade, [and] 3. Domestic market problems."[99]

The "Prince Edward Island Potato Marketing Plan" proposed changes in other areas as well.[100] Any marketing agency appointed by the proposed new Board would be authorized to conduct a pool, or pools, for the sale of potatoes on the export market. A supply-management system would be established, and a reserve fund created to provide funds for the purchase of small surpluses, as well as for research, promotion, seed production, and disease control. The promoters firmly believed that prices would not have to be fixed if a program of supply management, supported by a reserve fund, were established with clearly defined powers. There were no provisions made within the plan either for the development of a one-desk selling agency for the domestic market, or a centralized packing system. A plebiscite to determine potato industry support for this plan was called for August 1972.

Prior to the plebiscite vote on the final draft of the Potato Co-ordinating Committee's "Prince Edward Island Potato Marketing Plan," the government-owned Seabrooks Plant in New Annan became the centre of controversy. Industrial Enterprises Incorporated, on behalf of the provincial government, had conducted negotiations with C.M. McLean Ltd. for the eventual sale of the debt-ridden processing plant. C.M. McLean wanted to lease the plant for one year with an option to purchase. Organizations within the potato industry - including the Potato Co-ordinating Committee, the Federation of Agriculture, the National Farmers Union, the Potato Dealers Association, the Board, and the Potato Producers' Association - felt that such a sale had the potential to create a semi-monopoly.

The Potato Co-ordinating Committee believed that the government should operate the plant for another season and thus provide the opportunity for the proposed new commodity board, if approved by plebiscite, to utilize its facilities.[101] If nothing else, the Committee believed that, since it had devised a potato marketing scheme, its members should be consulted, and their recommendations studied, before the government made any decisions regarding the plant.[102] In a letter to Premier Alexander Campbell, dated 12 July 1972, the Committee left little doubt as to its stand on the Seabrooks plant matter.

> ...[O]ur committee, which was elected by, and is representative of the potato growers, vigorously resents the disdain with which our recommendations have been apparently treated by your Government. We want to remind you that we are not a Government appointed Committee and our terms of reference are not limited merely to the drafting of a marketing plan. We were elected by the potato growers to deal with the whole spectrum of future marketing policies and problems of concern to our commodity. This certainly includes processing....

The letter further advised the Premier that the Committee had on record a commitment from government that no decision would be made regarding the plant without careful consideration of Committee recommendations, and warned that "steps must be taken promptly to advise the industry here of what our Committee agrees unanimously is a sell-out."[103]

In a statement issued to the press, Premier Campbell explained that Executive Council did not agree with the views put forward by the Potato Co-ordinating Committee and other groups, and on 26 July endorsed Industrial Enterprises Incorporated's proposal to proceed with a contractual agreement with C.M. McLean.[104] The contract was duly signed, to be effective 29 July 1972. Two days later, the Potato Co-ordinating Committee announced that the government's decision had forced the group to withdraw its sponsorship of the plebiscite.

Fearing that potato producers would be deprived of the opportunity to express their views on the proposed marketing plan, Premier Campbell met with Mitch McLean of C.M. McLean Ltd. and asked him to voluntarily surrender the contract.[105] Mr. McLean agreed to consider the request. Premier Campbell stated later that, at a subsequent Cabinet meeting, it was decided that:

> Although not convinced that the New Annan plant had that much significance in determining whether or not a Commodity Marketing Board for potatoes would be effective, the Government determined that the final decision, by Government, would not be made until after the plebiscite, because the issue was considered important by the Potato Co-ordinating Committee and other groups.[106]

All might have gone well had not C.M. McLean refused to surrender its contract. The government had entered into a legal contract with the company, and nothing short of an act of the Legislative Assembly could alter that fact.

The Potato Co-ordinating Committee subsequently carried through on its threat to withdraw sponsorship of the plebiscite. On 13 August 1972, Albert E. McCardle, President of the Potato Producers' Association and Jack Howatt, Chairman of the Board, announced their respective organizations' withdrawal of support from both the Potato Co-ordinating Committee and its marketing plan: "...[T]he co-ordinating committee has recently issued an ultimatum to the provincial government regarding [the New Annan] plant, and we feel we cannot support this action."[107] On 22 August 1972, Premier Campbell stated:

> In my view, it is regrettable that the issue of the New Annan plant was injected, as it was, into the debate on potato marketing, particularly at a time when such a debate on the features and merits of the Potato Marketing Plan itself would have been much more relevant.[108]

The results of the 19 August 1972 plebiscite indicated a clear decision regarding the Potato Co-ordinating Committee's plan; the final count was 240 in favour, 314 against. President of the Committee Ira Lewis stated that "a big factor in the vote was a general feeling of optimism on the part of growers regarding the prices that will be affected this winter.... [I]t did not make the producers feel that a board was necessary, a sort of 'why should we look out for the potatoes when nature is doing it for us' outlook."[109] With the defeat of the Committee's plan, the dispute over the ownership of the Seabrooks plant died down.

The rejection of the Potato Co-ordinating Committee's plan intensified the desire on the part of the National Farmers Union for a plebiscite on its marketing scheme. Since special legislation would need to be enacted to enable the NFU to serve as sole bargaining agent for Island potatoes, it was determined by government that a plebiscite should be held to ascertain industry support for such an act. Accordingly, on 13 October 1972, the following question was placed before the industry: "Are you in favour of the desirability of introducing legislation under which the National Farmers' Union Potato Plan could operate?" The results of the vote showed 415 in favour and 233 opposed. It thus became incumbent upon the government to work with the National Farmers Union to draft the necessary legislation.

On 10 May 1973, the passing of the province's Agricultural Products Marketing Act (1973, cap. 20, s. 1) paved the way for a plebiscite on the National Farmers Union plan. The purpose of this plan was "to provide for the promotion, control and regulation in any and all aspects of the marketing of potatoes which are within the province, including the prohibition of marketing in whole or in part, to provide for cooperation with any federal agency or extra-provincial agency having similar objectives, and to rationalize and develop export markets."[110] The plan allowed for the establishment or appointment of a marketing commission with collective bargaining powers, comprising three marketing expert members appointed by the government on the recommendation of the National Farmers Union. The marketing commission would receive its direction from the bargaining agent, consisting of four NFU members. Each NFU county potato committee would appoint five members to form a fifteen-person policy co-ordinating committee to advise the bargaining agent.

Other clauses of the National Farmers Union plan granted the bargaining agent the power to determine the method for establishing minimum prices, and authorization to engage inspectors for the purpose of endorsing quality control. Moreover, the marketing commission would have the authority to set minimum prices on potatoes as well as to carry out the actual marketing. The existing crop insurance agency program would be extended to provide the producer with protection for his product from the field to the point of destination. Further, if or when a national marketing arrangement came into being, a vote of all registered producers would be implemented. Although the National Farmers Union stressed the importance of a move to central selling for off-shore exports, the marketing commission was not empowered to introduce supply management, initiate one-desk selling for the domestic market, or make any deductions from sales for the implementation of an income stabilization plan, without first calling for a plebiscite to determine industry support for such measures.

The National Farmers Union potato marketing plan met with strong opposition from other farm organizations within the industry. Mike McCloskey, President of the Potato Producers' Association, fearing an end to the producer-controlled industry, stated: "[T]he national office of the NFU, ..., will control the province's agricultural system if the vote favours the NFU."[111] Wallace Wood, President of the Federation of Agriculture, expressed similar concerns, citing strong support for "the principle of producer control and the producers participating in a system whereby all producers may become involved...."[112] Don MacKenzie, Chairman of the Potato Dealers Association, also opposed the plan, claiming a potential loss of traditional markets due to planned price fixing.[113]

The National Farmers Union plan went to a plebiscite vote on 13 July 1973, and was defeated by a margin of 74 votes, thus giving the existing Board a 54.4 per cent vote of confidence. On 31 July 1973, Premier Campbell convened a meeting between government representatives and the Potato Producers' Association, the Board, the Potato Dealers Association, the Potato Co-ordinating Committee, the Federation of Agriculture, and the National Farmers Union. The purpose of the gathering was to "discuss the industry's position and find ways to improve the marketing of Island potatoes."[114]

The National Farmers Union plebiscite was discussed during this meeting. Don Anderson, from the Board, claimed that the "Marketing Board and Dealers had won the battle." Allison Ellis, Chairman of the National Farmers Union potato committee, stated that "the NFU had lost the battle but not the war, and they would watch very closely the performances of the Marketing Board and Dealers and when the prices dropped they would be back again." Premier Campbell responded that "regardless of who won the battle, the only legal group left to speak for our potato industry was the present Potato Marketing Board," and thus it deserved the support of all farm organizations.[115]

With this view in mind, policy discussions at the meeting focused on eight major areas: off-shore market development at the international level; establishment of test and demonstration plots in importing countries; spot checks on rail and truck traffic at points of exit; regular market price reports for producers; the hiring of a technician for the Elite Seed Program in domestic markets; an all-weather conveyor system to load ships at all Island ports; organization of a feasibility study for the utilization of potatoes not needed on the tablestock market; and, finally, the preparation of a film to promote sales.[116] Many of the ideas presented at this time were later adopted by the Board.

In 1974, the Board proposed a marketing scheme for processed potatoes. The Potato Processing Council was established to act on behalf of members as the sole bargaining agent for the marketing of crops to the processing sector. It was planned that the Council would negotiate contracts for "reasonable" prices on behalf of those producers who grew potatoes for processing. This move was generally viewed as "a measure to defuse the National Farmers Union potato marketing plan, which would give the NFU sole bargaining rights for the marketing of all Island potatoes, not just those destined for the processing market."[117]

The following year, in 1975, the Board once again brought forth a marketing plan. This proposed plan, a joint project between the government and the Board, was intended to be provincially-funded on a diminishing basis for four to five years, but would eventually become self-supporting through increased levies. A.E. (Bud) Ings, Minister of Agriculture, announced that the first phase of the proposed plan included "development of an effective information system, improved transportation systems, control of all sales and shipments, and representation in main marketplaces.[118] Additional staff in the persons of a temporary transportation specialist and a marketing manager were hired to help implement the plan.

The National Farmers Union re-appeared on the scene when word of this plan was made known. They presented to the government a petition with 285 signatures (25 per cent of Island producers) and requested that a plebiscite be held immediately to determine the status of the current Board. The provincial government, wishing to give the Board's plan a fair chance, refused the NFU request, but promised that a plebiscite would be held within two years. Premier Campbell stated: "[T]he Board must be given the opportunity to put its program into effect, to give producers a chance to evaluate its effectiveness.[119]

At the same time that the Board was unveiling its new plan, talks also were underway to investigate a regional marketing system for potatoes. At the request of the New Brunswick and Prince Edward Island governments, the Potato Action Committee was established to develop and implement a marketing plan for eastern Canada. A representative from the Canadian Horticultural Council, and one each from the five eastern provinces, formed a steering committee. A provincial team of representatives was also created. David Faulkner represented Prince Edward Island on the steering committee, and the provincial team of representatives included Reid Sangster and Pat Moran.[120]

In February 1976, the National Farmers Union made a presentation to the Potato Action Committee, suggesting a national rather than regional authority to effectively regulate potato marketing within designated areas of Canada.[121] This would require special legislation enacted by Parliament, for which the Canadian Wheat Board had already set a precedent, and each province would have to delegate power to a federal authority for regulation of intraprovincial trade in potatoes.

In July 1976, the Potato Action Committee presented its marketing strategy to Maritime producers. The plan stipulated the formation of provincial producer organizations empowered to implement provincial marketing plans. It also suggested that the eastern Canadian provinces elect members to an Eastern Canada Potato Producers' Council, such organization to regulate interprovincial trade and develop regional marketing strategies. Producer response to this plan was negative and a steering committee, comprising three representatives from each of the eastern provinces, was appointed to reconsider marketing options.[122]

Also in July 1976, the plebiscite promised the National Farmers Union the year before finally was held. Potato producers were asked: "Do you wish the P.E.I. Marketing Plan established by the Minute in Council No. 666-63 on the first day of November, 1963 and from time to time amended, terminated?" The ballots revealed 129 producers in favour of termination, 368 against. The Board was once again given the support of producers, and returned its attention to transportation and promotion matters.

Throughout 1977 and 1978, talks continued between Ontario, Quebec, New Brunswick, Nova Scotia, and Prince Edward Island regarding the merits of creating an agency to coordinate potato marketing within the region. By mid-1977, the Eastern Canada Potato Producers' Council had become a reality, and another proposal regarding a regional agency was beginning to emerge.

In 1979, in response to petitions signed by 35 per cent of potato producers requesting the removal of dealers from its Board of Directors, the Board called another plebiscite. Petitioners desired a board which would be completely under producer control. The Board, the Potato Producers' Association, and the Potato Dealers Association all protested the proposed elimination of dealer members from the Board. Len McCardle, a member of the Potato Dealers Association, suggested that producers were not so much "against the dealers on the board but the present system of marketing P.E. Island potatoes."[123] John MacDonald, President of the Potato Producers' Association, expressed concern that "if dealers were eliminated from the

P.M.B., they might form a dealers' group which would then be competing with the producers' board.[124] The 9 April plebiscite results rejected the removal of dealers from the Board by a vote of 249 to 119.

With the issue settled regarding dealer representation on the Board, attention once again focused on the development of a regional marketing plan. In December 1979, a Federal-Provincial Task Force was appointed to study four areas of concern: the development of export opportunity; quality improvement; transportation and storage; and the examination of existing and alternative marketing structures. The Task Force comprised representatives from each province represented by the Eastern Canada Potato Producers' Council, an official from each of the participating provinces' governments, and an employee of the federal Department of Agriculture. Public hearings were slated to begin early in the new year.

In February 1980, speaking for the National Farmers Union, Arthur W. Craig called for the establishment of a Canadian potato marketing commission which would incorporate one-desk selling, price pooling, equal opportunity for delivery, and import controls.[125] Later that same month, the Potato Producers' Association proposed an eastern Canadian marketing system which would involve either a teletype auction network, or a single-desk selling agency. Votes held in March 1980 at potato producer meetings throughout the province, indicated 65 per cent support for a regional supply-management system.[126] However, the Potato Producers' Association was unable either to come to an agreement or to formulate a resolution regarding the need for a national or regional scheme. Points of contention centred around the necessity of maintaining a provincial marketing body, the need to cede all marketing powers to a federal agency, and the possibility of the loss of Prince Edward Island's reputation for high-quality potatoes.

In the meantime, the National Farm Products Marketing Council, chaired by June Menzies, began the process of conducting public hearings concerning an Eastern Canada marketing agency. As a measure of the merit of establishing such an agency, the Council declared it would require satisfaction that the majority of potato producers supported the proposal.[127] Public hearings for Prince Edward Island were slated for September in Charlottetown.

During the Charlottetown hearings, despite producer support for the regional agency, the Board's initial brief to the Council was negative.[128] Speaking of the Board's submission in Potatoes - Report of Public Hearings, June Menzies stated:

> It was the impression of the National Farm Products Marketing Council members that the presentation did not reflect a consensus of producer opinion and, in fact, the presentation was harshly criticized before the hearing by at least one young Prince Edward Island producer. Whereas the Board, in principle, is expected to operate in the interests of Island potato producers, in practice, it appears to operate in a manner that maintains the status quo and the interests of a small number of individuals who are involved as producer-shippers and/or exporters. As a consequence of producer concern over the Charlottetown presentation, the Prince Edward Island Potato Marketing Board asked for, and was granted, the right to present a modified brief to the Council at the Montreal hearings on September 10, 1980. At that hearing, the Board admitted some confusion over its earlier stand and went on record in support of the proposal.[129]

In February 1981, federal Agriculture Minister Eugene Whelan announced that the National Farm Products Marketing Council had recommended the creation of a marketing board for potato growers in Ontario, Quebec, and the Maritimes.[130] The Eastern Canadian Potato Marketing Agency would not have supply-management powers, could not fix interprovincial and export trade quotas, and could not fix prices on processing potatoes, export potatoes, or domestically-traded seed potatoes. In fact, the only authority of the agency would be control over the price of table potatoes traded interprovincially. Regarding supply management, the Council stated that the "lack of development of grower organizations in contrast to the wholesale domination of growers by the dealer-buyer network would suggest any vote-taking [on supply management] as premature until a coordination of provincial interests is possible."[131]

Response to this announcement was varied. Speaking for the National Farmers Union, Clair Duffy reacted negatively, stating that "nothing would change" and again calling for one national commission to control production and pricing. Prince Edward Island government reaction to the recommendations was generally supportive, although Agriculture Minister Prowse Chappell cautioned that "there was need for further discussion and that time was needed to determine just how well the provinces will work co-operatively in an overall marketing agency."[132] The initial response of the Potato Producers' Association was a refusal to participate in further negotiations towards the establishment of the agency until it received a written guarantee from the federal government that the necessary legislation to allow for production and marketing quotas would be immediately instituted. However, shortly thereafter the Association modified its stand and agreed to negotiate with the other provinces, but with the clear understanding that the agency would work towards the objectives of supply management.[133]

Throughout 1981, the Potato Producers' Association continued to raise concerns regarding the Agency. Questions were posed regarding Prince Edward Island representation to the Agency and the potential loss of Island product identity. Regarding the export market, chairman of the Producers' Association Norman Ramsay stated that "Ontario and Quebec will have a voice in potato exports, while only P.E.I. and to a lesser degree New Brunswick are involved in the export trade.... That bothers us."[134] However, the greatest area of anxiety concerned pricing. Fred McCardle, former chairman of the Potato Producers' Association, expressed the notion that "P.E.I. would be under more control by the [Agency] ... than, for example, Ontario, because the Island does more inter-provincial pricing. Many Ontario potatoes circulate within that province."[135]

To deal with this matter, a committee was created in July 1981, comprising representatives from each of the five participating provinces, to look at the approach to be taken towards pricing. The Island's position called for a pricing policy and system to control both the interprovincial and intraprovincial movement of potatoes. The final recommendation of the committee was that the agency should not become involved in pricing, as a standard price for all five provinces could not be set.[136] It was suggested, however, that the agency work towards a more uniform method of negotiating prices from province to province.

In November 1981, Nova Scotia, New Brunswick, and Prince Edward Island voted in favour of proceeding with the Eastern Canada Potato Marketing Agency. Quebec and Ontario, however, abstained from casting ballots. It was decided that the potato producers and government officials who attended the meeting where the vote was cast would forward their minutes to the federal government which would, in turn, submit to them a draft agreement for a marketing agency.[137] Another meeting was set for January 1982, to give all parties an opportunity to study further the government submission.

The sixth draft plan for the proposed Eastern Canada Potato Marketing Agency was made public in January 1982. This draft explained that the proposed agency would be governed by a board of directors and monitored by the federal government. An agreement between provinces would give the agency power to exercise control over the potato industry in such areas as pricing, licensing, product removal, product disposal, market research, and export promotion.

Provincial reaction to this version of the plan was less than enthusiastic. Nova Scotia favoured the agency, and New Brunswick was "supportive," Prince Edward Island and Ontario remained noncommital, while Quebec demanded further negotiations. Dudley Elcock, an employee of the National Farm Products Marketing Council, stated: "Ontario is basically waiting to see what happens in the Maritimes, while the Island may take a plebiscite of its farmers before deciding what to do."[138] Among Island producers there were continued reservations regarding price-setting and the Agency's ability to police such a system. The National Farmers Union potato committee voiced support for the Agency, but only if its mandate included export and processing controls, and the pooling of prices to producers.

In the spring of 1982, a plebiscite was announced for July to ascertain potato producer support for Prince Edward Island inclusion in the Eastern Canada Potato Marketing Agency. By 16 June 1982, at the close of registration for the vote, only 65 per cent of eligible voters were registered. Both the National Farmers Union and Liberal M.L.A. Allison Ellis criticized the timing of the plebiscite, citing the fact that summer is the farmers' busiest time: "They [farmers] don't have the time to give serious study to the proposal for the organization."[139]

During the month previous to the plebiscite, the various farm organizations made known their positions regarding the proposed agency.[140] The National Farmers Union declared strongly against the agency. The Federation of Agriculture claimed neutrality, as did the Board. However, Ira Lewis, Chairman of the Board, spoke out in public against the agency. Officially, the Potato Producers' Association took a neutral stand regarding the agency, but new Association president Norman Ramsay called the proposal "reasonable." The Prince Edward Island government also did not assume an official stance in regards to the proposal, but Provincial Potato Program Co-ordinator Winston Smith declared in favour of the organization.

In response to the question: "Should P.E.I. join the proposed Eastern Canada Potato Marketing Agency?" 340 (54 per cent) potato producers answered "Yes," while 290 (46 per cent) replied "No." A controversy arose almost as soon as the vote was announced; Ira Lewis, Chairman of the Board, claimed that 54 per cent indicated insufficient support to warrant the type of changes required for the establishment of a regional agency. On the other hand, Norman Ramsay, President of the Potato Producers' Association, felt that the 340 positive responses indicated a strong mandate in favour of joining the agency.[141]

In an attempt to reconcile these divergent beliefs, Agriculture Minister Prowse Chappell announced that legal opinion would be sought to determine whether a major change in the marketing structure could be made with less than 60 per cent approval from Island producers. When legal advice indicated that the Board could support joining the Eastern Canada Potato Marketing Agency without violating the Act under which it operated, the Board agreed to accept the decision of the majority of Island producers. The Board, however, did reserve the right to withhold its signature until acceptance of the Agency, as outlined in the sixth draft, was declared by the other four signatory provinces.

Once again the provincial representatives to the proposed potato agency gathered in Ottawa for further negotiations. The Island delegation, comprising a representative each from the Potato Producers' Association and the Board, and two members from the Department of Agriculture, presented a united front and forwarded several amendments to the sixth draft. These changes primarily related to formalizing the position of the Potato Producers' Association as a signatory to the plan; naming the Association instead of the Minister of Agriculture to work in conjunction with the Board in selecting Island representatives to the agency; and making it clear that the seed potato committee of the agency would have majority representation from the major seed exporting provinces.[142] All the Island amendments were accepted for incorporation into the seventh draft plan for the proposed Agency.

The seventh proposal for the Eastern Canada Potato Marketing Agency was circulated in January 1983, and again the Board and the Potato Producers' Association found themselves on opposite sides of the fence. The Board's complaint regarding the seventh draft focused on a change in the number of producer representatives required to support a pricing agreement. Norman Clarey, new chairman of the Board, stated: "[I]n the sixth draft, ten producer representatives had to be in unanimous support of an interim pricing agreement, but in the seventh draft only six of those ten must support such an agreement, as well as one producer representative from each province."[143] The Board feared that such changes would jeopardize the position of Prince Edward Island within the Agency. Peter Townshend, Kings County Vice-President of the Potato Producers' Association, disagreed with this opinion, stating that the changes between the sixth and seventh draft plans were only refinements that represented no threat to the Island.[144]

In February 1983, at a meeting of delegates in Ottawa, the seventh draft proposal for the Eastern Canada Potato Marketing Agency was rejected on the basis that too many unrelated issues had been introduced into the plan that significantly changed the power of the Agency in relation to the National Farm Products Marketing Council. In May 1983, the Council shelved completely any plans for the Agency, citing as its reason a lack of unanimity among the signatories. Three months later, agriculture ministers and potato industry representatives met in Montreal to give co-operation one last try. However, no consensus was reached regarding the establishment of a regional marketing agency and no further meetings were scheduled.[145]

Approximately one year after the final attempt and failure to organize an eastern Canada agency in August 1984, the federal government announced the creation of a Commission of Inquiry into Marketing Practices for the Potato Industry in Canada. This Commission was to inquire into and report upon the production base of the potato industry in Ontario, Quebec, New Brunswick, Nova Scotia, and Prince Edward Island, and to make recommendations for improvement. All aspects of potato marketing were to be considered. Less than three months after initiating its study in November 1984, the Commission fell victim to budget cuts within the federal Department of Agriculture.

During 1985 and 1986, both the National Farmers Union and the Federation of Agriculture voiced support for the creation of a national potato agency. In March 1986, Canadian potato industry representatives meeting in Ottawa agreed to form a task force committee to consider the merits of such an agency. Following a round of talks one month later in Toronto, attended by Island representatives from the Potato Producers' Association and the Board, a sub-committee was established to draw up a working paper outlining different options and potential problems.

During the summer of 1986, the National Potato Agency Task Force was busy preparing a draft of their findings for presentation to federal and provincal ministers of agriculture. Bertram Webster, an Island alternate delegate to the Task Force, stated that "the provinces agreed on criteria that can be used to set up an agency that will stabilize the industry by giving producers an income guarantee of production costs plus a reasonable profit."[146]

In the meantime, on 1 June 1986, the National Farmers Union presented Agriculture Minister Tim Carroll with a petition, signed by 180 potato producers, calling for a plebiscite to determine the desirability of continuing with the Board. Because the petition was signed by 10 per cent of Island potato producers, the Agriculture Minister was obliged to comply with the request. The plebiscite deadline was set for 10 October 1986.

Plebiscite results were announced on 16 October 1986. The question responded to was: "Do you favour the termination of the Temporary Plan re Potatoes?" 498 (50.6 per cent) producers replied "Yes;" 487 (49.4 per cent) answered "No." Agriculture Minister Tim Carroll termed the results "rather inconclusive," and announced he would hold a series of consultations with industry reprsentatives to determine what action should be taken.[147] On 22 October, the provincial government announced the formation of a Royal Commission on the Potato Industry. The Report of the Royal Commission was submitted to government in November 1987.

Conclusion

The history of the potato industry clearly tells a story of divisiveness, controversy, and divided leadership. Since the 1920s when some early visionaries tried to improve the marketing system, the history reveals a frequent clash of powerful interests, which often led to healthy debate, but also on occasion to acrimony and bitterness. The industry's efforts to reconcile and accommodate these interests have not been particularly successful, and governments for the most part, and perhaps wisely, have stood aside and observed, afraid perhaps to engage the powerful interests that exist within the industry.

Perhaps the most important story told by the industry's history is that of the absence of effective and unified leadership. For an industry so important to the province, operating at some cost disadvantages in distant and volatile markets, this is most unfortunate. By failing to act as a single and unified entity, the industry may not be returning to its members and to the Island economy the maximum benefits available. While the various marketing boards have been recognized as speaking for the industry, they themselves have often been paralyzed by the conflict of competing interests. Thus, the seeds of dissension remain, and are as much a part of the history of the potato industry as Green Mountains, Irish Cobblers, Kennebecs, and Sebagoes, and once planted require major intervention to prevent growth.

FOOTNOTES

1. "Romance of Island 'Spuds,'" *Maple Leaf,* II (February, 1917), p. 6.

2. *Patriot*, 27 January 1921, p. 4; annual meeting of the Potato Growers' Association, 1921.

3. *Guardian*, 18 July 1924, p. 3; annual meeting of the Potato Growers' Association, 1924.

4. *Patriot*, 16 July 1928, p. 3; annual meeting of the Potato Growers' Association, 1928.

5. "Report of Committee on Agriculture," *Journal of the Legislative Assembly of the Province of Prince Edward Island 1934. Being the Third Session of the Forty-Second General Assembly* (Charlottetown: Irwin Printing Company Ltd., 1934), p. 117.

6. *Ibid*., pp. 117-118.

7. *Guardian*, 28 October 1949, p. 2.

8. *Ibid*., 14 April 1950, p. 6.

9. *Ibid*.

10. *Ibid*., 4 March 1950, p. 11

11. *Ibid*.

12. Ibid., 14 April 1950, p. 1.

13. Ibid., 19 August 1950, p. 1.

14. Ibid., p. 15.

15. Ibid.

16. Ibid., 1 February 1951, p. 1, 15.

17. Ibid., 10 February 1951, p. 1.

18. Ibid.

19. Ibid., 28 July 1951, p. 1.

20. Ibid., 12 December 1951, p. 1.

21. Ibid.

22. Ibid., p. 15; 13 December 1951, p. 5.

23. Ibid., 1 February 1952, p. 1.

24. Peter H. Russell, ed., Leading Constitutional Decisions: Cases on the British North America Act (Toronto: McClelland and Stewart Ltd., 1965), p. 225.

25. Guardian, 1 February 1952, p. 1.

26. Ibid.

27. Peter W. Hogg, Constitutional Law of Canada, 2nd ed. (Toronto: Carswell Company Ltd., 1985), p. 275.

28. Guardian, 2 July 1952, p. 5.

29. Patriot, 1 October 1952, p. 1.

30. Guardian, 22 August 1953, p. 5.

31. Canada Department of Finance, Report by the Tariff Board Relative to the Investigation Ordered by the Minister of Finance Respecting the Production, Consumption, Marketing, Imports and Exports of Potatoes (Ottawa: Queen's Printer, 1955), p. 74.

32. Guardian, 22 August 1953, p. 1.

33. Ibid., 22 February 1954, pp. 1, 5.

34. Ibid.

35. Prince Edward Island Federation of Agriculture, "Presentation to the Premier and Members of the Legislature Assembly of Prince Edward Island," 18 March 1954, p. 8a.

36. Guardian, 19 March 1954, p. 1.

37. Ibid., 24 April 1954, p. 15.

38. Ibid.

39. Ibid., 12 May 1954, p. 15.

40. Ibid., 19 May 1954, p. 5.

41. Ibid., 14 May 1954, p. 5.

42. _Ibid._

43. _Ibid._, 12 May 1954, p. 15; 20 May 1954, p. 15.

44. _Ibid._, 9 September 1954, p. 3.

45. _Ibid._

46. _Ibid._

47. _Ibid._, 30 September 1954, p 1.

48. _Ibid._, p. 5.

49. _Ibid._

50. _Ibid._

51. _Ibid._

52. _Ibid._

53. _Ibid._

54. _Ibid._

55. _Ibid._, 5 October 1954, p. 3.

56. _Ibid._, 2 October 1954, pp. 1, 15.

57. _Ibid._, 11 November 1954, p. 1.

58. _Patriot_, 12 November 1954, pp. 1, 4.

59. Prince Edward Island Department of Agriculture, Agriculture Statistics 1985 (Charlottetown: Department of Agriculture, 1986), p. 54.

60. Patriot, 27 August 1955, p. 1.

61. Guardian, 3 September 1955, p. 2.

62. Ibid.

63. Ibid.

64. Ibid., p. 1.

65. Prince Edward Island Federation of Agriculture, "Presentation to the Premier and Members of the Legislative Assembly of Prince Edward Island," Tuesday, 6 March 1956, p. [i].

66. An Act Respecting the Marketing of Agricultural Products, 1956, Section 4, p. 4.

67. Guardian, 29 March 1956, p. 1.

68. Guardian, 14 December 1957, p. 5.

69. Ibid., 27 October 1959, p. 1.

70. Ibid., 8 March 1960, p. 1.

71. Prince Edward Island Potato Marketing Board, Board Order No. 35, 8 September 1961.

72. Guardian, 14 July 1962, p. 5

73. _The Marketing Act, 1956, Regulations, Temporary Plan re Potatoes_ (1963), Section 2, p. 3.

74. Prince Edward Island Potato Marketing Board, _Board Order No. A-1_, 13 December 1963.

75. _Financial Post_, 2 May 1964, p. 39.

76. The Federation of Agriculture Potato Committee members were Smith MacFarlane, Lincoln Dewar, Lawrence Yeo, St. Clair Duffy, Charles Jones, J. E. Mellish, and Don Anderson; _Guardian_, 25 April 1964, p. 3.

77. _Guardian_, 18 July 1964, p. 1.

78. _Ibid_., 25 March 1965, p. 5.

79. Prince Edward Island Federation of Agriculture, "Presentation to Premier W.R. Shaw and Members of the Executive Council of Prince Edward Island," 2 March 1965, p. 12.

80. _Guardian_, 21 March 1966, p. 1.

81. _Ibid_.

82. _Ibid_., 31 March 1966, p. 1.

83. _Ibid_., 19 April 1967, p. 1.

84. _Ibid_., 4 January 1968, p. 5; 5 January 1968, p. 3; 10 January 1968, p. 5.

85. _Ibid_., 5 January 1968, p. 1.

86. _Ibid._, 23 February 1968, pp. 1, 3.

87. Grace Skogstad, "Provincial Policy-Making: The Case of Potato Marketing," presented at the Canadian Political Science Association annual meeting, Montreal, 31 May 1985, p. 15.

88. Prince Edward Island Federation of Agriculture, "P.E.I. Potato Growers' Survey," 1971, pp. [1-3].

89. Prince Edward Island Department of Agriculture, "P.E.I. Potato Marketing Plan 1971-1975, Summary of Proposals," 1971, p. [1].

90. _Ibid._

91. _Guardian_, 22 September 1971, p. 2; 25 September 1971, p. 2; 28 September 1971, p. 2; Letter from Urbain LeBlanc to Allison Ellis, 8 November 1971; Letter from Leo P. McIssac to Hon. Alexander Campbell, 7 October 1971.

92. Potato Co-ordinating Committee, "Alternative Plan: Basic Principles Only," 1971, pp. [1-2].

93. Potato Co-ordinating Committee, "Minutes," 10 December 1971, pp. 1-2.

94. Potato Co-ordinating Committee, "Proposals to Committee (to Date) From Various Groups Connected with the Potato Industry," 1972, p. 1.

95. _Ibid._

96. *Ibid.*, pp. 1-2.

97. Potato Co-ordinating Committee, "Minutes," 5 January 1972, p. 2.

98. Potato Co-ordinating Committee, "Proposed Prince Edward Island Potato Marketing Plan," 1972, p. 4.

99. *Ibid.*, pp. 3, 5, 10.

100. Potato Co-ordinating Committee, "30 Questions and Answers re Proposed Potato Marketing Plan," 1972, pp. 4-5.

101. Letter from Potato Co-ordinating Committee to Hon. Alexander Campbell, 12 July 1972; [?] August 1972; and to Hon. Dr. John Maloney, Minister of Industry and Welfare, [? June] 1972.

102. *Ibid.*

103. Letter from Potato Co-ordinating Committee to Hon. Alexander Campbell, 12 July 1972.

104. *Guardian*, 23 August 1972, p. 3.

105. *Ibid.*

106. *Ibid.*

107. *Ibid.*, 14 August 1972, p. 1.

108. *Ibid.*, 23 August 1972, p. 3.

109. Ibid., 26 August 1972, p. 1.

110. National Farmers Union, "Potato Marketing Plan P.E.I., 1973 Information Booklet," 1973, p. 14.

111. Guardian, 7 July 1973, p. 1.

112. Ibid., 9 July 1973, p. 3.

113. Ibid., 11 July 1973, p. 3.

114. Ibid., 19 July 1973, p. 1.

115. Potato Co-ordinating Committee, "Minutes," 7 August 1973, p. 1.

116. In a letter to Premier Alexander Campbell, dated 19 September 1973, the Potato Co-ordinating Committee proposed similar recommendations; Guardian, 1 August 1973, p. 1.

117. Guardian, 3 August 1974, p. 2.

118. Ibid., 1 August 1975, p. 1.

119. Ibid.

120. Ibid., 24 July 1975, p. 3.

121. Ibid., 21 February 1976, p. 5.

122. Ibid., 10 July 1976, p. 1.

123. Ibid., 15 March 1979, p. 2.

124. *Ibid*., 28 February 1979, p. 1.

125. *Ibid*., 13 February 1980, p. 3.

126. *Ibid*., 29 March 1980, p. 5.

127. National Farm Products Marketing Council, *Potatoes - Report of Public Hearings* (Ottawa: National Farm Products Marketing Council, 1980), p. 1.

128. *Ibid*., p. 6.

129. *Ibid*.

130. *Guardian*, 3 February 1981, p. 1.

131. *Potatoes - Report of Public Hearings*, p. 12.

132. *Guardian*, 4 February 1981, p. 5.

133. *Ibid*., 14 February 1981, p. 1.

134. *Ibid*., 11 June 1981, p. 1.

135. *Ibid*., 9 April 1981, p. 1.

136. *Ibid*., 9 December 1981, p. 10.

137. *Ibid*., 26 November 1981, p. 1.

138. *Ibid*., 25 March 1982, p. 3.

139. *Ibid*., 17 June 1982, p. 17; 18 June 1982, p. 3.

140. Ibid., 24 June 1982, p. 1; 10 July 1982, p. 1; 15 July 1982, p. 3; 23 July 1982, p. 3.

141. Ibid., 4 August 1982, p. 1.

142. Ibid., 21 September 1982, p. 2.

143. Ibid., 28 January 1983, p. 1.

144. Ibid., 29 January 1983, p. 3.

145. Ibid., 29 August 1983, p. 1.

146. Ibid., 12 September 1986, p. 1.

147. Ibid., 16 October 1986, p. 1.

CHAPTER 2

The State of the Industry

The potato industry plays an important role in Prince Edward Island's economy. The industry represents the largest component of the Island's most important economic sector, agriculture. Potatoes account for over one-third of total farm cash receipts, and for approximately 70 per cent of farm cash receipts derived from crops.[1] The significance of potatoes as a cash crop is most likely to increase in the short and medium term, as the tobacco industry declines due to societal pressures reflected in reductions in consumer demand and to government policies aimed at reducing demand for tobacco.

The potato industry's contribution to the economy of the Island goes well beyond farm cash receipts. It is a major employer, providing much needed on-farm employment in rural Prince Edward Island. The industry is also a major source of employment beyond the farmgate, especially in the processing sector; the major processor, Cavendish Farms, represents the largest private sector employer in the province. In addition, many service industries directly and indirectly reliant on the agriculture sector, look to the potato industry as a major source of business. Thus, the industry provides the basis for creating spin-off employment and economic activity.

Perhaps the most important aspect of the potato industry's economic importance is that it generates much-needed revenue from outside the province's borders. Only a small proportion of potato production is marketed within the province. Much of the product is sold, not only to other Canadian provinces, but also to the United States and other foreign countries. The export of Island potatoes provides an important window on the world for a province of Canada isolated in the North Atlantic and removed from the mainstream of world trade. It should also be noted, however, that much of the generation of out-side revenue is off-set by the out-flow of capital for production input costs, such as machinery and fertilizer.

Despite the potato industry's pre-eminent position within the Island community and economy, there appears to be much anxiety both about its current and future status. While many express optimism and show unremitting faith in the prospects for further expansion and growth, others are less optimistic and some are even openly critical. Some question the distribution of benefits within the marketing system and claim that the farmer is unprotected compared to other participants, such as dealers and retailers who draw strength from their position in the marketing chain. Associated with this view is the notion that governments and other economic decision-makers tend to treat the agriculture sector as merely a "conduit of money," providing the basis for the development of other industrial and service sectors. Coherent policies aimed at protecting the interests of farmers go unformulated, and the basic health of the farm sector remains ignored.

Other critics question the move toward fewer but larger production units. It is argued that this development leads to more intensive cultivation of the land base, soil degradation problems and, inevitably, to increased production costs. This can ultimately mean placing in jeopardy the long-term viability of an agricultural activity.

Defenders of the current pattern of development within the Island potato industry say that the difficulties faced by farmers are basically a manifestation of the market, or the free enterprise system, at work. The market rewards the most efficient farmers with increased markets and profits, while culling the less productive farm units.

Despite the difference of views about the state of the potato industry on the Island, there appears to be a general acknowledgement that, in economic terms, the last number of years have not been the best of times for the industry. In a province where potatoes are a mainstay of the economy, the health of this sector must be of great concern to industry participants, policy makers, and the population at large. The remainder of this chapter will assess the state of the Island's potato industry from the perspective of physical, human, and financial resources.

Physical Resource Perspective

It has been long recognized that the Island's land was and is integral to its past and present development, and no doubt will continue to play a major role in the future. The land plays an especially important role in making the Island potato industry competitive. The province's red, sandy soil produces the biggest yields per acre of any province in Canada, and yields rank favourably with many fall-producing areas in the United States. It is of primary importance that the land base be maintained to ensure the continued success of the potato industry.

Table 2A gives an indication of the amount of Island land utilized for growing potatoes.

Table 2A

P.E.I. Potato Acreages (1976-85)

Year	Acres Planted
1976	51,600
1977	55,000
1978	56,000
1979	61,000
1980	56,000
1981	64,000
1982	69,000
1983	70,000
1984	72,000
1985	73,400*
Five-Year Average(1976-80)	55,920
Five-Year Average(1981-85)	69,680

*Note: In 1985, 76,000 acres actually planted but 73,400 harvested (preliminary)

Source: P.E.I. Department of Agriculture, Prince Edward Island Potato Statistical Summary, 1985, Table 1.

The acreage of potatoes grown on the Island has increased significantly over the past decade. According to Table 2A, the average annual potato acreage for the five-year period 1981-85 was 69,680 acres, compared to an annual average acreage of 55,920 acres during the previous period (1976-80). This represents an increase of approximately 25 per cent between periods.

In 1981, 391,118 acres of land on the Island were under crops.[2] Presuming that this level of cropland has remained consistent and potato acreages were approximately 69,680, the potato industry represents 17.8 per cent of cropland under production each year. However, this may understate the utilization of cropland for potato production. If one considers crop rotation cycles, it could be postulated that as much as 50 per cent of Island cropland is affected by potato production.

The production of potatoes is conducted throughout the province. However, the industry is heavily concentrated in Prince County, as Table 2B indicates:

Table 2B

Acreage of Potatoes by County*

	1971	1976	1981	1986
Kings	7,788	8,081	8,896	8,518
Prince	29,437	32,641	40,185	39,775
Queens	9,527	10,721	14,797	15,926
Province	46,752	51,443	63,878	64,219

*Note: The provincial acreages reported in Table 2B diverge from data in Table 2A due to differences in data collection between Statistics Canada and Census Canada.

Sources: Prince Edward Island Department of Agriculture, Prince Edward Island Potato Statistical Summary, 1985, Table 7; Census Canada, data requested by the Commission.

While Island potato acreages have increased significantly over the past decade, it is useful to compare this to potato acreage increases or decreases found in other producing areas in North America. Table 2C provides such a comparison.

Table 2C

Comparison of Average Annual Potato Acreages Between North American Producing Areas for Selected Five-Year Periods*

Producing Area	Yearly Average Acreages 1976-80	1981-85	Percentage Change Between Periods
P.E.I.	55,920	69,680	24.6
Nfld.	1,004	N/A	N/A
N.S.	3,840	4,000	4.2
N.B.	55,700	53,500	-4.0
Quebec	43,780	44,980	2.7
Ontario	44,780	38,840	-13.3
Manitoba	37,000	39,960	8.0
Saskatchewan	2,040	2,500	22.5
Alberta	16,600	18,720	12.8
B.C.	12,020	9,000	-25.1
Maine	113,000	98,000	-13.3
Idaho	341,200	326,800	-4.2
Washington	106,200	112,600	6.0

*Note Annual average derived by dividing five-year aggregate acreage by five-year period. Acreages for 1985 were preliminary.

Source: P.E.I. Department of Agriculture, Prince Edward Island Potato Statistical Summary, 1985, Tables 1 and 4.

Table 2C indicates that between 1976-80 and 1981-85, Island potato production increased more than in any other producing area. The only other area to challenge the Island's potato acreage increase was the small potato -producing province of Saskatchewan. Interestingly, many of the Island's major competitors - Idaho, Maine, New Brunswick and Ontario - experienced an acreage decrease during the same time periods.

In the 1976-80 period, New Brunswick and Prince Edward Island had similiar potato acreages. However, between 1981-85, the Island clearly established itself as the largest potato-producing province in Canada. Despite the Island potato industry's prominent position within the Canadian context, its acreages seem rather small compared to fall-producing areas in the United States such as Idaho, Maine, and Washington.

Acreage represents an important indicator of the growth of a particular commodity sector. Another important indicator of growth is yield per acre. Table 2D provides a comparison of annual yield between producing areas for selected five-year periods.

Table 2D

Comparison of Average Annual Yield Per Acre Between North American Producing Areas for Selected Five-Year Periods*

Producing Area	Average Annual Yield Per Acre (Cwt.) 1976-80	1981-85	Percentage Change Between Periods
P.E.I.	227.1	254.1	11.9
Nfld.	N/A	N/A	N/A
N.S.	171.4	200.0	16.7
N.B.	211.5	236.9	12.0
Quebec	181.2	185.5	2.4
Ontario	200.0	205.6	2.8
Manitoba	156.3	158.8	1.5
Saskatchewan	205.1	183.0	-10.7
Alberta	225.3	231.0	2.5
B.C.	230.1	220.0	-4.4
Maine	238.0	253.0	6.3
Idaho	260.6	273.8	5.1
Washington	468.0	494.0	5.6

*Note: Annual average derived by dividing five-year aggregate yields by five-year period. Yields for 1985 were preliminary.

Source: P.E.I. Department of Agriculture, Prince Edward Island Potato Statistical Summary, 1985, Tables 2 and 5.

Table 2D indicates that, during the time periods considered, all producing areas except Saskatchewan and British Columbia experienced yield increases. Within Canada, potato yield increases were most marked in the Maritime provinces, while Quebec and Ontario recorded only modest yield increases. Prince Edward Island had the highest potato yield per acre within Canada in the 1981-85 period, and its 11.9 per cent increase over the previous five-year period compares favourably with yield increases experienced in other producing areas.

Despite the fact that the Island has the highest potato yield in Canada, it is not impressive when compared to some producing areas in the United States. The state of Washington, in particular, with a potato yield approaching 500 cwt. per acre, tends to dwarf Prince Edward Island's potato-producing ability.

The Island potato industry has experienced an acreage and yield increase in the past decade. The combination of these two factors translates into a major increase in total production. Average annual production of Island potatoes increased from 13.1 million cwt. during the 1976-80 period to 17.7 million cwt. during the 1981-85 period, representing a 35.1 per cent increase.[3]

The marked increase in potato production has been somewhat offset by an increase in the rate of cullage and loss in recent years. During the 1976-80 period, cullage and loss represented approximately 19.3 per cent of production, as compared to the figure of 24.6 per cent for the 1981-85 period.[4] The rate of cullage and loss affects the amount of production available for marketing. Its incremental increase in the 1980s means that much of the productivity gain achieved through increased yield has been lost.

Thus far, the increase in Island potato production has been attributed to increased acreage and yield. While the effects of increased acreage on production are self-explanatory, a number of factors have contributed to increased yield. Potato yield is very much dependent on climate and weather. While the Island tends to compare favourably with other producing areas with regard to climate and weather, basically these are unpredictable factors. Beyond this, credit for increased yield must be given to changed potato production techniques reflected in fertilizer application and other crop management practices. In addition, a major shift in the past decade to high-yielding potato varieties such as Russett Burbank, has positively affected yield.[5]

The Island's fertile soil, which produces the highest yield per acre in Canada, should give a comparative cost-of-production advantage over major Canadian competitors. Detailed cost-of-production studies for Canadian potatoes are not undertaken on a regular basis. However, in 1981 potatoes were designated for price support under the 1979 Eastern Canadian Potato Stabilization Program. The federal government, as part of its price support calculations, developed cost-of-production data (termed "out-of-pocket costs") for Prince Edward Island, New Brunswick, Quebec, and Ontario. This data is shown in Table 2E.

Table 2E

Canadian Cash Costs of Production, 1976-79
U.S. dollars per cwt.*

Crop Year	P.E.I.	N.B.	Quebec	Ontario
1976-77	$2.54	$2.84	$3.02	$2.09
1977-78	2.29	2.39	2.14	1.66
1978-79	1.97	1.97	2.02	1.68
1979-80	2.04	2.04	2.35	1.99

*Note: Costs in U.S. dollars because information was obtained from an American publication.

Source: U.S. International Trade Commission, The Competitive Status of Major Supply Regions for Fall Harvested Fresh White or Irish Potatoes in Selected Markets, August, 1984.

Table 2E indicates that there was a tendency for the cost of production to decline in the Island's industry between 1976-77 and 1979-80. This is perhaps a reflection of productivity gains in the industry; however, a similar tendency was also recorded for other producing provinces, with New Brunswick recording the same cost of production as the Island in 1978-79 and 1979-80. The Quebec industry, despite significant gains, had a higher cost of production than the Island for all four years. Interestingly, Ontario recorded the lowest cost of production for all four years.

The data indicates that the Island has a cost of production equal to, or lower than, other eastern Canadian provinces except Ontario. During the 1976-79 period, the cost of production on the Island provided a limited competitive advantage. In the 1980s, it is quite possible that the Island's potato industry has made some cost-of-production gains relative to other eastern Canadian provinces because of a significant increase in acreage and yield.

The statistics clearly demonstrate that the Island potato industry has grown in terms of acreage and production, which is looked upon by some as a healthy sign. The argument is made that it demonstrates the financial ability within the farm community to put a crop in the ground. Moreover, it is argued that increased production will bear future dividends for the industry once these years of North American and world over-production are behind us and the price of potatoes rises. Central to this latter argument is the assumption that other producing areas will lessen production in light of poor price performance, while the Island remains in a healthy production position. While this argument is plausible, it is difficult to assess its validity, given the vast array of factors which could influence the outcome of a battle between the fall potato-producing areas throughout North America and the world. Perhaps the more appropriate question is whether or not increasing potato production in itself is beneficial to the Island industry.

It is recognized by many, including farm groups, that a healthy land base and environment are essential to sustaining agricultural activity. In recent years, increasing concern has been expressed about land use practices and their potential link to soil degradation and environmental damage. Such concerns move beyond the agriculture community itself and take on a public dimension because of the societal costs associated with soil degradation and environmental damage.

It is generally acknowledged that proper crop rotation is necessary in order to provide winter cover for the land, to add new nutrients to the soil, to reduce erosion, and to give the land a rest from intensive tillage. Most Island potato farmers generally operate on a three-year rotation cycle. While many different crops may be used for this purpose, the most common rotation cycle is potatoes alternated with grain-forage in a three-year rotation cycle.

Unfortunately, it is difficult to put together a general picture of the overall rotations within the Island potato industry. According to one industry official, there were 180,000 acres in the potato crop rotation cycle in 1985, of which 76,000 acres were in potatoes.[6] For that year, those estimates point to a crop rotation cycle of 2.4 years for the industry, suggesting overall rotations within the potato industry of less than three years when a three-year cycle is already considered relatively short.

At present there is insufficient specific crop data on fertilizer use. Potatoes are known as "heavy feeders" of fertilizers and, while application may vary with the history of the field and the potato variety grown, rates of 800-1100 lbs. per acre are common. Likewise, there is a lack of data on pesticide use. In the 1985 Business Analysis of Selected Potato Farmers, chemical sprays were found to cost an average of $125 per acre compared to $157 per acre for fertilizer and lime. Fertilizer and pesticide applications thus represent a major cost to potato farmers.[7]

Tillage practices are also quite intensive. The requirements of a fine seed-bed for hilling and cultivating the growing crop, along with pesticide applications before harvest, means that a potato farmer makes literally dozens of tractor passes over a field, causing expense to the farmer as well as compaction of the soil - a hidden problem plaguing producers.[8] The combination of relatively short crop rotations, high use of fertilizers and pesticides, and soil compaction potentially can contribute to soil degradation and loss.

Soil erosion is to some extent a natural phenomenon. Wind and water inevitably wear down soil surfaces and transport material downhill to the ocean. The result is acidification of the soil and a loss of organic matter, both of which must be of concern to the potato industry. Improper agricultural practices can speed up the erosion process; this is an issue which can and must be addressed by the industry.

In severe cases, the loss of soil from a field may exceed new soil formation by a factor of one to ten. The long-term effect is a weakened soil structure, decreased productivity, and increased need for fertilizers, with production becoming so difficult or expensive that, eventually, the land is abandoned. On Prince Edward Island water-related erosion is commonly seen in gullies or bare fields, particularly following spring run-off. However, sheet erosion also occurs and is more insidious because it is much less obvious to the casual observer. The effects are evident in silted streams and clogged ditches near the eroding fields.[9]

There is very limited quantitative information concerning erosion losses in Atlantic Canada. Annual loss rates of 20 to 40 tonnes per hectare from bare fields have been recorded.[10] These rates must be classified as severe. In New Brunswick, a study group headed by D.R. Coote estimated that water erosion was costing about $10-$12 million per year, of which about 90 per cent was related to potato production.[11] The group also suggested that the problem was growing in extent, severity, and cost.

Erosion-related studies conducted by N. Stewart and D. Himmelman on Island test plots over a number of years, showed major losses of up to 40 per cent through run-off of applied fertilizers on plots with 12 per cent slope.[12] Other experiments, carried out by J.M. Sadler at Charlottetown, simulated erosion and indicated yields were significantly reduced, requiring additional fertilizers to make up for the loss.[13]

All of the Atlantic Province studies relate to water-induced erosion; however, wind erosion is often visible during winter, although its effects have not been quantified. While undoubtedly less important than water erosion, there is perhaps a hidden cost here as well.[14]

Soil compaction may be natural (genetic) or man-induced; in either case soil structure, which is extremely important in crop production, is affected. A compact subsoil structure restricts water movement, root growth and, thus, crop production. This aspect of soil degradation is not well understood and, being invisible, often is ignored. Man-induced compaction results from driving heavy machinery over the land, particularly when it is wet. Bearing in mind that potato cultivation requires literally dozens of tractor-passes over a field during the growing season, it is not surprising that compaction is the result.[15]

Studies elsewhere have shown that compaction significantly reduces crop yields. For instance, one study showed that 12 tractor passes over the soil reduced yields by 22 per cent. Water infiltration also decreased, thus increasing surface run-off. As is commonly the case, the soil degradation phenomena of erosion and compaction were interlinked.[16]

Another aspect of soil degradation is the loss of organic matter. Organic matter is necessary to maintain good structure in the soil complex and to help minimize compaction and erosion. Poor soil aeration caused by tillage practices reduces the level of organic matter. Soils under short rotations and intensive tillage commonly contain low organic matter, resulting in poor soil structure and increased susceptibility to further degradation. Island soils have low organic matter content under natural conditions, and may be further decreased by certain farm practices.[17]

Finally, a number of processes, including the intensive use of inorganic fertilizers, can lead to an increase in soil acidity, which in turn decreases crop yields through loss of plant nutrients. Increased acidity requires greater use of lime, and thus crop production becomes more expensive. This problem receives little attention locally since the Island's naturally acidic soil requires liming in any event to obtain reasonable productivity. The additional lime is considered a minor production expense.[18]

In summary, soils in the Atlantic region and on the Island present a number of problems which require attention. The most important of these are: susceptibility to erosion, compaction, organic matter loss, and increased acidity. The problems are further compounded by field cropping, which leaves the soil bare over significant periods, and which includes much use of large machinery, tillage, and heavy applications of inorganic fertilizers (increasing acidity). On the Island, potato farming is the most significant activity contributing to these difficulties.[19]

The economic costs of soil degradation may, for convenience, be divided into two areas - direct costs to the farmer, which ultimately increase the cost of production, and indirect costs to society in terms of environmental quality and the well-being of others.[20]

One of the most pertinent applicable studies on direct cost to farmers in the Atlantic region was carried out by the D.R. Coote study group. Their study considered the effects of erosion, acidification, and compaction on soils in the New Brunswick potato belt, in terms of yield reduction and requirements for increased input. The group was obliged to use a number of generalizations and estimates; in particular, they based calculations on risk of degradation rather than on actual measured degradation. Nonetheless, they estimated an annual degradation cost of approximately $18.8 million in the study area. Although not all of this cost can be directly attributed to potatoes since other crops were also grown in the study area, potato farming was the major agricultural activity.[21]

It is not easy to extrapolate such data to the Island situation. For instance, risk mapping of the type employed by the Coote group has not been done here. Island soils are different, and Island slopes and local climate are not the same. However, cropping practices are similar and the extent of the potato industry is greater on the Island. The Coote group's data, which suggest degradation costs of hundreds of dollars per acre annually for New Brunswick's sensitive soils, would likely reflect the same for Prince Edward Island.[22] The cumulative effect of soil degradation over many years can represent a major cost to farmers, which must ultimately be factored into the cost of production as it affects the long-term viability of the potato industry.

A number of individuals and groups have expressed concern with respect to the long-term effects of soil degradation on the Island's potato industry. This fear perhaps was best expressed by the Board in its brief to the Commission.

> The effect of pesticides on agricultural land, and of soil erosion on the industry in the long term, must be examined and dealt with. The success of the industry in the short term will be of no value if, due to pesticide use and soil erosion, the land becomes less fit or unfit for potato use in fifty or seventy-five years time.[23]

However, some members of the potato industry view major potato increases in the past decade as "positive growth."[24] The logical extension of this opinion is that the Island industry should produce progressively greater quantities of potatoes in future, and that this would be an appropriate strategy to follow. The advisability of such a notion must be examined.

There are three possible ways of increasing production. These are:

1. Increased yield
2. Shortened rotations
3. Increased potato acreages

Although potato yields have increased significantly over the past few decades, they have remained relatively stable in recent years. Such unpredictable factors as weather do play an important role in yield rates, but there is nothing to suggest that major yield increases will continue. While it is recognized that the introduction of new potato varieties or new technology (e.g., extensive irrigation) could increase yields, such developments remain unknown. In the short term, increased production through increased yields does not look promising.[25]

Increasing production through shortened rotation cycles is also an unpromising approach, since rotation cycles are already quite short. It is most likely such a strategy would only lead to increased soil degradation, causing major "downstream" costs to the potato industry and Island society in general.[26]

A final consideration for increasing potato yields centres on bringing more land into production. This approach has some theoretical merit and could be accomplished either by bringing high-class farmland back into production, or by putting into potato production land which is in other rotations. However, there are a number of difficulties with these approaches. First, the amount of available farmland in major producing areas is limited. Second, bringing additional farmland into the potato rotation would inevitably mean bringing less suitable land into production (e.g., land with steeper slopes or other production problems). Third, a great deal of land which is currently in potato production is probably suffering from degradation. It would seem more appropriate to farm in a better manner the land that is already in potato production.[27]

In the Commission's view, it would be inadvisable for the industry to pursue an increased production strategy, at least in the near future, since there appears to be plenty of current production which is not at all marketable. For instance, the cullage rate on Prince Edward Island is high, and thus directing the energies of the industry toward achieving a lower cullage rate would seem a more constructive strategy. This could be approached in a number of ways - better harvesting, storage, and handling procedures, and facilities for increased processing. Making full use of the potatoes produced will also help ensure the continued presence of farmers within the industry.

Human Resource Perspective

As already discussed in some detail, the base of potato production on the Island is land, which requires experienced and skilled human resources to harness its potential. Any discussion of human resources within agriculture must ultimately focus on the farm population. Many of the farmers involved in potato production have been preceded by forefathers who were also involved in the industry; in many respects, producing potatoes is a part of their heritage, although in many other farm families this heritage has not been passed down through the generations.

Despite growth in the potato industry, as represented by increased potato acreages and production, the number of farmers has not increased. Canadian Census data, as presented in Table 2F, quite clearly demonstrates this situation.

Table 2F

Number of Census Farms
Growing Potatoes and Acreage Grown - P.E.I.

Census Year	Number of Census Farms	Acreage	Average Farm Size(acres)
1961	5,712	46,173	8.1
1966	4,515	52,148	11.5
1971	1,710	46,752	27.3
1976	1,048	51,443	49.1
1981	823	63,878	77.6
1986	656	64,219	97.9

Source: Census Canada, 1961, Cat. #96-652; 1966, Cat. #96-603; 1971, Cat.# 76-703;, 1976, Cat. #96-802; 1981, Cat.# 96-903; 1986, census data, obtained by the Commission.

Table 2F shows that during the period 1961-86, the number of census farms growing potatoes dramatically decreased from 5,712 in 1961, to 656 in 1986. The trend toward fewer and fewer farm units has continued during the first part of the current decade. In 1986 there were 656 farms compared to 823 in 1981, that is, 167 less farms involved in potato production or a 20.3 per cent decrease from 1981. While this represents a less dramatic decrease than found in other five-year census periods, it is a worrisome trend given the efficiencies which were presumably achieved during the 1960s and 1970s.

Given that acreages increased while farm numbers decreased, it is evident there has been a move towards increased farm sizes. In its brief to the Commission, the National Farmers Union explained this phenomenon: "The disorder in the potato industry in the past decades has resulted not only in a decrease in the number of farm families involved in production, but also a corresponding concentration of production in the hands of a few."[28] Table 2G illustrates this point.

Table 2G

Comparison of the Distribution of Potato Farms by Number
Prince Edward Island - 1981 and 1986

Acres Planted	Number of Farms(1981)	Cumulative Percentage of Farms	Number of Farms(1986)	Cumulative Percentage of Farms
Less than 5	110	100.0	64	100.0
6-24	234	86.6	154	90.2
25-49	159	58.2	122	66.8
50-99	132	38.8	115	48.2
100-149	67	22.8	63	30.0
150-199	28	14.7	39	21.0
200-249	27	11.3	29	15.1
250 and over	66	8.0	70	10.6
Total	823		656	

Source: Census Canada, 1981 and 1986 Census Data requested by the Commission.

Table 2G clearly indicates that smaller farm units have been giving way to larger farm units. In particular, those farm units under 100 acres experienced the greatest decrease. The number of farms growing 150 or more acres of potatoes experienced a slight increase between 1981 and 1986. In 1986, potato farms of under 100 acres represented 70 per cent of potato farms on the Island, compared to 77.2 per cent in 1981. On the other hand, potato farms with more than 150 acres increased from 14.7 per cent of farms in 1981 to 21 per cent of farms in 1986. The movement of the potato industry towards increasing numbers of larger production units and fewer small farms points to a concentration of potato production, as Table 2H indicates.

Table 2H

Distribution of Potato Farms by Number and Size, Prince Edward Island - 1986

Acreage Planted	Number of Farms	Cumulative Percentage of Farms	Total Acres	Cumulative Percentage of Total Acres
Less than 5	64	100.0	133	100.0
5-24	154	90.2	2,104	99.8
25-49	122	66.8	4,164	96.5
50-99	115	48.2	7,711	90.0
100-149	63	30.0	7,577	78.0
150-199	39	21.0	6,632	66.2
200-249	29	15.1	6,218	55.9
250 and over	70	10.6	29,680	46.2
Total	656		64,219	

Source: Census Canada, 1986 census data requested by the Commission.

To place Island potato farm numbers and sizes in some perspective, it is useful to make a comparison with the overall Canadian situation. Table 2I gives a breakdown of the distribution of Canadian potato farms by number and size.

Table 2I

Distribution of Potato Farms by Number and Size
Canada - 1986

Acres Planted	Farms	Cumulative Per Cent of Farms	Total Acres	Cumulative Per Cent of Farms
Less than 5	2,049	100.0	3,651	100.0
5-24	995	58.0	11,476	98.7
25-49	487	37.7	16,615	94.5
50-99	515	27.7	35,080	88.5
100-149	284	17.2	33,705	75.8
150-199	174	11.4	29,100	63.5
200-249	109	7.8	23,246	53.0
250 and over	272	5.6	122,716	44.5
Total	4,885		275,589	

Source: Statistics Canada, 1986 Census data requested by the Commission.

As indicated by Table 2I, 7.8 per cent of Canadian potato farms were growing 200 or more acres of potatoes in 1986, accounting for 53 per cent of total Canadian acreage production. On the other hand, Canadian potato farms with less than 100 acres of potatoes represented 82.8 per cent of the total farms, accounting for 24.2 per cent of the total acres grown. By comparison, Table 2H indicates that on the Island, farms with over 200 acres of potatoes accounted for 15.5 per cent of potato farms and 55.9 per cent of total acreage. Those Island farms with less than 100 acres of potatoes accounted for 70 per cent of farms and 22 per cent of provincial acreages.

The comparison of Canadian and Island data indicates that the Island has a lower proportion of small potato farm operations (100 acres or less) than is found Canada-wide. Conversely, the Island does have a higher proportion of its farms growing 200 or more acres. This suggests that Island farm operations in general tend to be larger scale than those found elsewhere in the country. This means that there tends to be a heavier concentration of production among a small percentage of potato farms Canada-wide relative to Prince Edward Island.

These statistics point to some interesting realities. At the lower end of the acreage scale, one finds a relatively large number of producers representing a small percentage of acreage. At the upper end of the scale, one finds a relatively small number of producers representing a majority of acreage production. This seperation between large and small producers tends to bring into sharp focus the differences in production capability, and hence economic power, between potato farmers. It may also translate into a political division within the industry as small farmers continue to face pressure to exit from the industry. The existing process is only a symptom of the financial difficulty faced by small-scale producers.

The phenomenon of the smaller potato unit giving way to the larger production unit can be influenced by a number of circumstances. First, due to financial pressures, a number of small potato producers may have quietly withdrawn from farming or claimed bankruptcy. Second, a number of smaller farm units may have withdrawn from the industry upon retirement of the farmer who had no successor to take over the operation. Third, a number of small farmers may have decided to concentrate on agricultural activities other than potatoes. Fourth, some smaller-scale farmers may have decided to pursue attractive employment opportunities elsewhere.

Although these four circumstances help explain the withdrawal of small producers from the industry, many of them, on the other hand, may have a strong resistance to such pressures. A review of the 1986 Census indicates that smaller producers tend to have more diversified farms and a significant amount of off-farm employment. The combination of diversified farm incomes and off-farm employment allows the small farmer to resist pressure to exit from the industry. Conversely, diversified income sources could precipitate an exit from a particular commodity sector, if a farmer determines that it may be more lucrative to concentrate on other activities.

The Commission accepts the notion that, in general, larger units are more economically efficient than smaller units. This acceptance is based on the 1985 Prince Edward Island Potato Enterprise Study, which indicates that, of the production units sampled, those under 200 acres had cash costs of production of $4.18 per cwt., whereas those of over 200 acres had cash costs of production of $3.91 per cwt. Hence, there appears to be evidence that efficiencies are gained with the larger production unit. The same study indicates that farms of under 200 acres had an average yield of 266 cwt. per acre, whereas farms of over 200 acres had a yield of 248 cwt. per acre.[29]

This data suggests that due to economies of scale, the larger farm unit may be more economically efficient, but that the smaller-scale farm is more productive in terms of land base utilization. Underlying this reality are many complex reasons. The larger production unit may be unable to produce as high a yield because less personal attention is given to crop husbandry, less care and time is devoted to harvesting, and less heed is paid to the health and maintenance of the land base. Nevertheless, the larger production unit has an efficiency advantage which will continue to pressure smaller producers either to expand or to leave the industry.

The smaller-scale farmer still in production can take little comfort from this data, while the larger producer may see the rewards of expansion. In fact, some larger producers may see an advantage to the exit of small producers. After all, the smaller the number of producers, the more opportunity exists to garner market shares, to expand production, and to achieve greater efficiencies.

However, achieving the objective of greater efficiency involves chasing a moving target. The tendency of smaller production units to fall by the wayside may be an ominous omen rather than a positive development, since economic efficiencies must always be weighed against societal values. In any case, the disappearance of smaller production units does signal that the vice is closing in on many of the remaining participants in the industry, some of whom are not particularly small. As the present statistics indicate, those with less than 100 acres of production are withdrawing from the industry. When will economic efficiencies and the market dictate that those with less than 300 acres of production ought to be eliminated? The analogy of the vice closing in on participants in the industry may appear even more appropriate when the financial state of the industry is examined.

Financial Perspective

Opinions vary on the general financial health of the Island potato industry. There may be as many opinions as there are participants, given the inclination of many to extrapolate their own individual situation to the whole industry. The National Farmers Union, for instance, claims that farm families involved in potato production are in a "state of constant and nerve wrecking financial crisis".[30] Others, such as the Dealers Association, present the view that the situation may not be so bad, and point out that "on a five-year average, it has been a very, very good business."[31] Conversely, the Board put forth the view that "producers have seen the bad years grow worse and worse, to an extent that the good years, when they occur, are not enough to make up for the bad years."[32] It is with these differing assessments in mind that the Commission has attempted to provide an analysis of the financial state of the industry.

It has been pointed out to the Commission that the price of potatoes on the basis of a five-year average has shown a steady increase since 1970. An increase in nominal farmgate prices, of course, is in the best economic interests of the farmer. However, it is ultimately the purchasing power of potatoes which affects the economic interests of the farmer. The Commission will address these above points with the aid of Table 2J.

Table 2J

Comparison of Nominal Potato Prices to Potato Prices as a Ratio of the Consumer Price Index Using Five-Year Averages 1951 to 1985 (1971=100)

Five-Year Period	Nominal Prices* ($/cwt.)	Potato Prices as a Ratio of the Consumer Price Index* ($/cwt.)
1951-55	$1.97	$2.94
1956-60	1.63	2.26
1961-65	1.86	2.37
1966-70	1.43	1.65
1971-75	3.93	3.33
1976-80	4.34	2.39
1981-85	5.06	1.87
35-year average	2.86	2.40

*Note: Data on the left-hand side of the Table is derived by adding weighted average farmgate prices and dividing by five years. The data on the right-hand side of the Table was derived by multiplying nominal price by the Consumer Price Index using 1971 as the base year, then adding the data for each five-year period and dividing by five years, making it is now possible to compare nominal prices with trends in consumer prices.

Sources: P.E.I. Department of Agriculture, Agricultural Statistics, Vol.20, 1986; Historical Statistics of Canada, 2nd Edition, 1983, Series K8-18; "Review of the Economy", Canada Year Book, 1985, p. 753; P.E.I. Department of Finance and Tourism, Province of Prince Edward Island Statistical Review, 1985 and 1986.

Potato prices as a ratio of the Consumer Price Index are reflective of real prices. The five-year period from 1981 to 1985 represents one of the poorest price periods relative to consumer prices in the recent history of the potato industry. Using 1971 as a base year, only one other five-year price period, 1966-70, was worse in terms of farmgate price performance; the peak period for farmgate prices was from 1971 to 1975. However, since that time, potato prices as a ratio of consumer prices have shown a decline. In fact, potato prices as a ratio of consumer prices in the 1981-85 period were only 57.4 per cent of prices experienced in the 1971-75 period and only 74.4 per cent of the 35-year average. In the Commission's view, there can be no doubt that the actual purchasing power of a cwt. of potatoes has witnessed a decline in the first part of the current decade.

The Commission recognizes that a comparison of potato prices to overall consumer prices may indicate only that the farmgate price of potatoes has not kept pace with inflation in the Canadian economy. After all, farmers do not spend the bulk of their money on consumer goods; rather, the bulk of their expenditures go toward farm inputs. However, a comparison of farm input costs in Eastern Canada
e Consumer Price Index since 1971 demonstrates that the
of farm inputs has kept pace with inflation, as Table
¿K indicates.

Table 2K

Comparison of Consumer Price Index to Farm Input Price Index - Eastern Canada 1971-1986

Year	Consumer Price Index (1981=100)	Farm Input Price Index (1981=100)
1971	42.19	35.3
1972	44.22	37.2
1973	47.59	45.4
1974	52.77	53.3
1975	58.47	57.1
1976	62.86	60.3
1977	67.89	63.7
1978	73.93	70.4
1979	80.70	82.0
1980	88.91	89.5
1981	100.00	100.0
1982	110.98	102.9
1983	117.23	104.4
1984	122.39	107.1
1985	127.28	106.2
1986	132.63	108.6

Sources: Statistics Canada, Farm Input Price Index, Consim Update, May 1987; P.E.I. Department of Finance and Tourism, Prince Edward Island Historical Statistical Review, May 1985; P.E.I. Department of Finance and Tourism, Province of P.E.I. Statistical Review, 1985 and 1986.

Between 1971 and 1986 the Consumer Price Index rose 3.14 times the original 1971 price, while the Farm Input Price Index rose 3.07 times. This indicates that the farmer witnessed major inflationary increases in both farm inputs and consumer goods purchased. However, it appears that from 1981 to 1986 Farm Input Prices have climbed at a slower rate than the Consumer Price Index.

Given the major increases in Farm Input Prices between 1971-86, a closer analysis of the relationship between farmgate potato receipts and the Farm Input Price Index is in order.

Table 2L

Comparison of Average Farm Prices
For P.E.I. Potatoes to Farm Input Price Index (Eastern Canada)
Based on Selected Five-year Period Averages

	Average Farmgate Receipts Per Acre*	Per Cent Change Over Initial Period	Average Annual Farm Input Price Index**	Per Cent Change Over Initial Period
1971-75	858.65	-	45.66	-
1976-80	1005.52	17.1	73.18	60.3
1981-85	1273.64	48.3	104.12	128.0

*Note: Addition of each annual average farmgate price multiplied by average annual yield and divided by five-year period.

**Note: Addition of each annual Farm Input Price Index divided by five-year period.

Sources: P.E.I. Department of Agriculture, Agricultural Statistics, Vol. 20, 1986 (for further information, see Appendix S); Statistics Canada, Farm Input Price Index, Consim Update, May 1987.

While the Commission acknowledges that the Farm Input Price Index cannot be directly linked to input prices for potatoes, it does accept it as a general indicator of price trends for potato farm inputs. Table 2L indicates that in Eastern Canada the aggregate of farm inputs, which includes such items as price of land, buildings, machinery, fertilizer, seed, pesticides, and labour, has increased dramatically while average per-acre farmgate potato receipts have increased only modestly, despite increased productivity resulting from increased yield. A comparison of the five-year periods 1971-75 and 1981-85 indicates that, while average farmgate potato receipts per acre increased 48.3 per cent, the price of farm inputs in Eastern Canada increased by 128 per cent. The inevitable conclusion is that the farmer is caught in a cost-price squeeze or - to link with a previous analogy - caught in the vice. In its brief to the Commission, the National Farmers Union highlighted this fact: "It is obvious that the high costs, low prices and deflated equity value of the past years places farm families involved in potato production in a state of constant and nerve wrecking financial crisis."[33]

Low prices on the one hand and high input costs on the other have an inevitable impact on the viability of the farm unit and the health of the industry as a whole. The usual strategy for dealing with the cost-price squeeze has been to reduce per-unit costs by gaining greater efficiency and productivity. Typically, these goals have been achieved through modernization and mechanization of the farm unit, increased farm unit sizes, increased yields and better farm management techniques. This has usually meant increased capitalization and assistance from numerous government programs (not to mention financial and other institutions), particularly during the years of the Prince Edward Island Comprehensive Development Plan. While increased capitalization may have facilitated productivity gains, the Federation of Agriculture points out that it does not necessarily mean more money in the farmer's pocket.

> The main point ... is that capital assistance [and by implication capitalization generally] does not greatly affect income or iron-out the chronic instability of potato prices.[34]

- · The available data for the first part of the 1980s tends to support this view. The Prince Edward Island Department of Agriculture in conjunction with Agriculture Canada produces an annual Potato Enterprise Study, which selects a small sample of potato producers from which the Department obtains financial and other data to establish both cost of production and potato receipts. While the Commission recognizes that this data is probably not statistically valid, it is accepted as reasonably indicative of the situation of the average Island potato farm. If the data errs in any direction, it is to favour larger units, since the average farm size in each of the annual samples tends to range between 150 and 200 acres. Hence, it must be assumed that the financial prognosis for smaller farm units is not as healthy.

Table 2M

Potato Receipts Relative to Cost of Production
1981-85

Year	Sample Size	Cash Costs of Production Per Cwt.	Potato Receipts Per Cwt.	Profit(Loss) Per Cwt.
1981	18	4.86	4.34	-.52
1982	11	3.75	3.86	+.11
1983	20	4.64	5.79	+1.15
1984	17	4.27	4.88	+.61
1985	24	4.03	3.86	-.17
Five-Year Average		4.31	4.55	+.24

Source: P.E.I. Department of Agriculture and Agriculture Canada, Prince Edward Island Potato Enterprise Study, 1981, 1982, 1983, 1984, and 1985.

Table 2M indicates that, on the average, farmers have been able to meet the basic cash costs of production over the past five years with a small profit of 24¢ per cwt. to show for their efforts. Translated into more tangible terms, this data indicates that a 200-acre potato farm with a yield of 250 cwts. per acre would achieve an average profit of $12,000 per year, which can hardly be considered an adequate return on the farmer's labour or investment. Such investment would be in excess of $500,000 on a potato farm of this size. In fact, a farmer with a family in all likelihood would have to erode away his or her equity position in the farm in order to meet living expenses. That being said, the Commission considers it useful to analyze potato farm incomes in more detail.

The Commission has obtained aggregate potato farm income tax data from Statistics Canada. The data is derived from a sample of farm tax filers reporting potato receipts in the 1984 and 1985 taxation years. The 1984 tax year includes the excellent price year experienced in the 1983-84 marketing year, and the moderate price year experienced in 1984-85. The 1985 tax year includes a portion of the moderate price year experienced in 1984-85, and the poor price year experienced in 1985-86. Tables 2N and 20 outline income tax data for 1984 and 1985, presented according to potato receipt ranges.

The data presented in Tables 2N and 20 may underestimate farm operating expenses as it does not include depreciation. Income tax provisions allow for accelerated depreciation, which tends to overstate actual depreciation of farm assets on an annual basis. Hence, total farm receipts less operating expenses are not an accurate indicator of net farm income. Nonetheless, the data does provide a general representation of farm incomes.

On a per-farm basis, the 1984 data indicates higher potato receipts, higher average farm receipts, and

Table 2N

Comparison of Potato Receipt Ranges - 1984 and 1985 Income Tax Data

1984

Potato Receipt Range	Sample Size	Potato Receipts	Other Farm Sources Receipts	Total Farm Receipts	Total Farm Operating Expenses	Total Farm Receipts Less Operating Expenses	Average Per Farm Receipts Less Operating Expenses
		($000,000)	($000,000)	($000,000)	($000,000)	($000,000)	
1-24,999	339	3.13	5.29	8.42	7.40	1.02	3,000
25,000-49,999	123	4.40	4.00	8.40	6.06	2.34	19,000
50,000-99,999	124	9.04	3.95	12.99	9.57	3.42	27,600
100,000-149,999	49	6.04	1.70	7.74	5.72	2.02	41,200
150,000-249,999	38	7.45	1.65	9.10	6.63	2.47	65,000
250,000 & over	20	9.78	1.20	10.98	8.12	2.86	140,000
Total	693	39.84	17.79	57.63	43.5	14.13	20,300

Table 20

1985

1-24,999	414	3.47	11.16	14.63	13.16	1.47	3,600
25,000-49,999	141	5.20	3.91	9.11	7.26	1.85	13,100
50,000-99,999	94	6.43	3.49	9.92	7.93	1.99	21,200
100,000-149,999	36	4.42	1.49	5.91	5.15	.76	21,100
150,000-249,999	22	4.29	.77	5.06	4.19	.87	39,500
250,000 & over	15	5.70	.97	6.67	5.26	1.41	94,000
Total	722	29.51	21.79	51.30	42.95	8.35	11,500

Source: Statistics Canada, Agriculture Division, Taxation Data Unit; information requested by the Commission.

less operating expenses than were experienced in 1985. This is basically a function of differing market conditions between the two years. What is most revealing about both sets of Tables is the wide divergence between potato receipt ranges in per-farm average of farm receipts less operating expenses, which is generally reflective of net farm incomes. In both 1984 and 1985, those farmers on the lower end of the potato receipt spectrum do show quite low net farm incomes, whereas those on the upper end of the spectrum showed quite healthy net farm incomes in both years.

This points to other obviously sharp differences in the economic well-being of potato farm operations of different sizes, the reasons for which may be many. As the data demonstrates, there tends to be a higher degree of specialization in potatoes as one moves from the lowest to highest potato receipt ranges, suggesting that those who concentrate on potatoes are able to reap the rewards of specialization. It may also suggest that those on the lower end of the spectrum may have been involved in other agricultural activities, which may have performed poorly from the point of view of price during these years. It is clear, at any rate, that a number of potato farm operations are experiencing low incomes, and that this reality appears to be a function of size, and possibly the degree of specialization in potatoes.

The financial data thus far presented, more than anything else helps to explain the decline in farm numbers in potato production. The effects of the financial squeeze within the potato industry is not limited to those who have left the industry: many of the remaining participants are obviously feeling the effects as well. In some instances, farmers use up farm equity and must go into debt to survive.

To shed more light on the financial aspect, the Commission will turn its attention to the industry's debt situation.

The Commission requested data from the major financial institutions. Table 2P gives a breakdown of the number and amount of capital loans for 1986-87, as well as the number and amount of arrears on those loans.

Table 2P

Capital Loans to Potato Farmers by Major Financial Institutions
P.E.I. Potato Farms, 1986/87

Institution	Number of Loans	Amount ($000,000)	Number of loans in Arrears	Amount in Arrears ($000,000)
Farm Credit Corp. (March 31, 1987)	268	$16.4	97	$2.46
Lending Authority (March 31,1987)	137	7.6	26	1.25
Six Major Banks & Credit Unions (Dec. 31, 1986)	455	14.1	26	1.61
Total	860	$38.1	149	$5.32

Source: Financial institutions; information requested by the Commission.

The loans in arrears presented above are those for more than 90 days. The three-month reporting discrepancy between the private and public institutions is not appreciable, as payments on capital loans within the argiculture industry are not usually paid between January 1 and March 31.

Table 2P indicates that there were approximately $5.32 million of arrears on capital loans of $38.1 million. Arrears represent approximately 14 per cent of capital loans. It appears that the Prince Edward Island Lending Authority had the highest proportion of loans in arrears, followed by the Farm Credit Corporation, and private financial institutions. It is fair to assume that the debt moritorium had more of an impact on public institutions such as the Lending Authority and the Farm Credit Corporation than on private institutions.

The information thus far presented does not of itself have great significance, other than that a number of potato farmers are in arrears on capital loans and that the amounts are substantial. Another point which should be considered is the relationship between an annual installment payment on capital loans and the amount in arrears. According to the Farm Credit Corporation, as of 31 March 1987, the annual installment on its capital loans was $2,516,657. In effect, the yearly installment payment is slightly more than the total amount in arrears ($2.46 million), which means that the capital loan portfolio of the Farm Credit Corporation is close to one full year in arrears. Given the data from other financial institutions, it would seem fair to draw a similar conclusion for the overall capital loan portfolio of the potato industry.

While it must be recognized that some farmers are less than one year in arrears, there are a number of loans which are further in arrears. The fact that the loan portfolios are averaging approximately one year in arrears does underline the difficulty many farmers are experiencing in regaining a sound financial footing, although the 1986-87 marketing year may help alleviate some of the arrears problems because of better prices.

Using relatively recent data, the situation with respect to capital loans has been established. It is best now to look at some trends which have led up to the situation. While the Commission was unable to obtain data on capital loans in past years from private institutions, it was able to do so from the Farm Credit Corporation and the Prince Edward Island Lending Authority. Table 2Q contains some data obtained from those sources.

Table 2Q

Comparison of Capital Loans and Arrears (1984-87)
(P.E.I. Lending Authority and Farm Credit Corporation)
($000,000)

	P.E.I. Lending Authority		Farm Credit	
Year As Of	Loans	Arrears	Loans	Arrears
31 March 1984	7.36	N/A	15.10	.69
31 March 1985	7.31	.47	16.38	1.25
31 March 1986	7.55	.727	16.50	1.93
31 March 1987	7.60	1.25	16.40	2.46

Source: P.E.I. Lending Authority and Farm Credit Corporation; information requested by the Commission.

The data contained in Table 2Q covers the four-year period 1984 to 1987. While this time period is relatively short, the data does indicate a significant increase in arrears at both institutions, while the amount of outstanding capital loans rose only slightly. The obvious conclusion is that the debt situation has worsened considerably since 1984, which was a good price year for the potato industry.

A further indicator of the debt position of the potato industry is comparisons made with the situation in other agricultural commodity sectors within the province. The Commission has obtained such comparative data from the Farm Credit Corporation with respect to capital loans. Table 2R outlines this data.

Table 2R

Comparison of Capital Loan Situation (Farm Credit Corporation)
(As of March 31, 1987)

Commodity	Active Accounts	Principal not due ($000,000)	Annual Installments ($000,000)	Number of Accounts in Arrears	Amount in Arrears ($000,000)
Potatoes	268	16.40	2.51	97	2.46
Tobacco	68	5.88	.83	12	.34
Other Crops	15	.91	.13	2	.07
Dairy	311	12.30	1.80	44	.44
Beef	55	1.97	.31	12	.12
Pork	129	4.95	.72	35	.35
Poultry	12	1.36	.20	2	.02
Other	55	.45	.09	6	.03

Source: Farm Credit Corporation; information requested by the Commission.

Table 2R clearly indicates that the potato sector is performing poorly compared to other commodity sectors with respect to payment of capital loans at the Farm Credit Corporation. The potato industry is responsible for the most accounts in arrears, but a more telling statistic is the actual amount in arrears, which is almost equal to an annual installment for the entire loan portfolio; no other agricultural commodity sector approaches a similiar situation. The financial data, therefore, indicates a significant debt problem within the potato industry with respect to capital loans. While it may be an overstatement to call it a crisis, there is cause for grave concern, even though capital loans represent only one portion of the potato industry's financing. There is also another important component of farm financing - operating (or working capital) loans.

The Commission was able to obtain information on operating loans from the Prince Edward Island Lending Authority, the six major banking institutions, and the credit unions. The Farm Credit Corporation does not extend operating loans. Table 2S is a breakdown of data received from these organizations.

Table 2S

Operating Loans to Potato Industry - Financial Institutions on P.E.I.

Organization	Number of Operating Loans	Amount of Credit Extended ($000,000)	Number in Arrears	
			Over 90 Days	Arrears ($000,000)
P.E.I. Lending Authority (March 31,1987)	21	3.20	9	1.34
Six Major Banks & Credit Unions (Dec. 31,1986)	353	17.33	16	1.04

Source: Financial Institutions; information requested by the Commission.

The data in Table 2S is more difficult to analyze given that the status of operating loans can shift rather quickly because payment periods are not as structured and are much shorter than for capital loans. Nonetheless, the data does indicate, that as of 31 December 1986, significant portions of operating loans were in arrears at the Lending Authority compared to the private financial institutions. Proportionately, the amount in arrears at private financial institutions was much less than that experienced by the Lending Authority. Again, this may be a reflection of the debt moratorium, which may have had a greater impact on public institutions as opposed to private institutions. In general, Table 2S points out that arrears are present with respect to operating loans and that this does not apparently involve a large number of farmers. However, given their small number, the amount of arrears does take on major significance for those involved.

Another form of farm financing is commonly termed "trade credit". This is not extended by financial institutions; rather, it is extended by firms involved in selling farm supplies to farmers, or in some cases dealers who market the farmers' product. Many of those who extend trade credit are distributors of farm supplies as well as marketers of potatoes (e.g., dealers). The supplies on which credit is extended are usually fertilizer and pesticides, although credit may be extended on occasion for such items as seed.

The issue of credit on purchases is not a practice exclusive to the potato industry. Many suppliers of different goods allow customers a 30-day period in which to pay their bills, which is very much a common business practice. For instance, a farmer purchasing fertilizer in the spring has until 30 June to pay the bill. Should the farmer pay prior to or on this date, he or she will receive a volume discount, such as 7 per cent, on the total purchase. Should the payment deadline not be met, the farmer runs the risk of losing the discount and will have to pay interest on the balance of the account. The interest on overdue accounts is in the range of 1.5 per cent to 2 per cent per month.[35] This form of credit is standard practice in both the agricultural and nonagricultural business sectors. However, it appears that it is also common practice on the part of some suppliers/dealers and farmers to use it as a form of short-term credit which extends well beyond any payment deadline such as 30 June. For the remainder of this discussion, the term "trade credit" refers to credit extended by suppliers beyond any normal grace period such as one month.

As mentioned earlier, a number of potato dealers act as distributors of fertilizer and pesticides for major companies. For instance, a potato dealer will purchase fertilizer from a company and in turn supply a farmer who markets potatoes through the dealer's operation. In purchasing the fertilizer from a major company, the supplier/dealer receives the farmer's volume discount and perhaps a dealer discount as well. The dealer may or may not pass on a portion of the discount (e.g. the 7 per cent farmer discount) to the farmer, depending on the dealer and the promptness with which the farmer pays the bill. The major fertilizer companies do extend some trade credit directly to farmers as well as to dealers.

It is difficult to determine the amount of trade credit available to the potato industry. All farmers use credit in the sense that most would take advantage of the grace period allowed prior to payment date, after which interest would be charged. However, there is also credit which runs past a payment date, referred to here as "trade credit." The Commission requested information from major companies involved in extending trade credit, and while the difficulty of putting an exact dollar figure on it is recognized, estimates show there is well over $10 million dollars in trade credit currently in circulation.[36]

In the Commission's view, the amount of trade credit within the industry is significant. It appears that such credit is being used as a form of short-term financing, and is on a scale to rival total operating loans extended by the six major banks and the credit unions. However, the Commission has been told by many individuals who extend trade credit that its presence is becoming less pronounced. Due to the financial instability within the potato industry, many suppliers wish to avoid extending credit, although they point out that many farmers still request it. This would seem to confirm the view of Bertram Webster, president of the Potato Producers' Association, who said: "I don't think the dealers necessarily want to have a lot of trade credit."[37]

Trade credit can be viewed as the credit of last resort, with resultant high interest rates. The continued presence of trade credit and its apparent demand reflect the financial difficulties within the potato industry. It also points to some complex relationships.

When trade credit is extended by a supplier/dealer to a producer, arrangements are made with respect to future relationships. Usually, the dealer agrees to extend trade credit on the understanding that the farmer will supply the dealer with potatoes. Sometimes the dealer will secure the credit extended by use of a crop mortgage; however, trade credit often goes unsecured. From the perspective of a dealer, trade credit provides the link between production and marketing. In other words, the dealer has secured a reliable supply of potatoes for the upcoming market year. The farmer, on the other hand, may have given up some choice as to where the potatoes can be sold, but in doing so has secured access to the market. In many cases this rather subtle relationship has gone on for decades, perhaps even generations. It certainly helps to explain why trade credit maintains a strong presence within the industry.

Trade credit can be viewed as having a positive impact on the potato industry. After all, it does provide a source of financing to farmers who wish to cultivate a crop. Nonetheless, its very close association with the marketing function makes such a practice a matter for concern. While it has positive features, it also has the potential to be an instrument of control used by dealers over producers. It is the view of the Commission that trade credit is not a preferable form of farm financing and that the industry would be better without it. Of course, trade credit cannot be easily eliminated as long as farmers continue to find themselves in a financial squeeze.

The Island potato industry has grown in recent years in terms of acreage and production. This increase has occurred despite a continuing drain on farm numbers. The outcome of these two trends is that production has become more intensive, presenting potential serious soil degradation problems to farmers in the long-term, as it may deplete the capability of the industry's most important resource - land. Moreover, land degradation translates into higher production costs for the farmer. While it can be argued that other lands could be brought into potato production, there is a limit to the amount of available land in our small province, and it is more advisable to demonstrate stewardship of the land already in production before exposing more of it to intensive agriculture.

The ability of the potato industry to expand its production in the future may be limited, since the capability of the land base is limited; neither does the ability to increase yield in the future appear promising in the short-term. The strategy of shortened rotation, while possible, would be disasterous from the perspective of soil conservation. It seems most responsible at this stage of the industry's development to acknowledge that the industry has reached a peak, and any efforts to increase production must be approached with caution. The province must seek to ensure that a potato industry will in fact be in place for future generations.

While stewardship of land is important, it appears that the farm community has been denied the resources to demonstrate care for the land. The returns from the marketplace barely cover the cash cost of production for many farmers, thus it is hardly reasonable to expect a farmer to show leadership in land conservation when the economic rewards of production are limited.

The financial picture within the potato industry is not promising. Numerous factors have contributed to the low incomes experienced by many farmers. Foremost among these factors is the cost-price squeeze, which has made it difficult for smaller-scale farms in particular to remain viable, the result being that many farmers have abandoned the industry in recent years. There is no reason to expect this trend to change in the existing environment. Low farm incomes and increasing debt within the industry support this outlook. While many are doing poorly within the industry, others appear to be doing well, particularly the larger production units because of their ability to gain efficiencies and lower production costs.

The wide differences in the economic welfare of producers within the potato industry create an important division. Although it is true that some small farms do very well, and other larger farms do not, certain general conclusions may be drawn. First, there are many farmers, operating mostly small units, who are experiencing economic difficulty. Second, there is a minority, operating mostly larger units, who are doing quite well and are responsible for a majority of the potatoes produced. No doubt, these realities have a large bearing on the differing views of participants regarding the nature of the current marketing organization and how it should be shaped in the future. The next chapter will look at the marketing system for Prince Edward Island potatoes.

FOOTNOTES

1. Statistics Canada, "Farm Cash Receipts from Farming Operations," December 1986, p. 20. For more information, see Appendix A.

2. Prince Edward Island Department of Agriculture, Agricultural Statistics 1985 (Charlottetown: Department of Agriculture, 1986), pp. 7-8.

3. Ibid., p. 54. For more information, see Appendix D.

4. Ibid. For more information, see Appendix D.

5. This view results from discussions with industry participants.

6. Quoted in Hawthorne Farm Ltd., Certain Land Use Issues Related to the Growth of Potatoes on Prince Edward Island, prepared for the Royal Commission on the Potato Industry (New Dominion, P.E.I.: Hawthorne Farm Ltd., 1987), p. 5.

7. Ibid., pp. 5-6.

8. Ibid., p. 7.

9. Ibid., p. 9.

10. A. Schori, "Soil Degradation in Atlantic Canada: A Review and Assessment," cited in Certain Land Use Issues Related to the Growth of Potatoes on Prince Edward Island, p. 10.

11. D.R. Coote, M.A. McGovern, H. Rees, and M. Fox, "Preliminary Physical and Economic Assessment of Soil Degradation in New Brunswick," cited in *Ibid*.

12. N. Stewart and D. Himelman, "Soil Erosion Studies on Prince Edward Island," cited in *Ibid*.

13. J.M. Sadler, "Effects of Soil Degradation on Barley Production," cited in *Ibid*.

14. *Certain Land Use Issues*, p. 10.

15. *Ibid*., pp. 10-11.

16. *Ibid*., p. 11.

17. *Ibid*.

18. *Ibid*.

19. *Ibid*., p. 12.

20. *Ibid*.

21. *Ibid*.

22. *Ibid*., p. 13.

23. Prince Edward Island Potato Marketing Board, *Royal Commission on the Potato Industry, Public Hearings*, Vol. II, 27 January 1987 (Charlottetown: Royal Commission on the Potato Industry, 1987), p. 457.

24. Clarey Farms, *Ibid*., Vol. I, 14 February 1987, p. 56.

25. *Certain Land Use Issues*, p. 15.

26. *Ibid.*

27. *Ibid.*

28. National Farmers Union, *Royal Commission on the Potato Industry, Public Hearings*, Vol. I, 4 February 1987, p. 285.

29. Prince Edward Island Department of Agriculture, *Prince Edward Island Potato Enterprise Study 1985* ([Charlottetown]: Department of Agriculture, 1986), pp. 20, 31.

30. National Farmers Union, *Royal Commission on the Potato Industry, Public Hearings*, Vol. I, 4 February 1987, p. 285.

31. Roger Bruce, Potato Dealers Association, *Ibid.*, Vol. II, 12 February 1987, p. 390.

32. Prince Edward Island Potato Marketing Board, *Ibid.*, 27 January 1987, p. 456.

33. National Farmers Union, p. 285.

34. David Catmur, *Agriculture in the Eighties - Phase III Plans and Proposals*. A draft prepared for the Prince Edward Island Federation of Agriculture, August 1979 ([Charlottetown]: Federation of Agriculture, 1979), p. 81.

35. This information derives from confidential discussions, meetings, interviews, and correspondence.

36. Ibid.

37. Potato Producers Association, Royal Commission on the Potato Industry, Public Hearings, Vol. II, 7 February 1987, p. 503.

CHAPTER 3

The Marketing of Prince Edward Island Potatoes

The marketing of Island potatoes has often been described as complex. What complexity exists is created by several factors: potatoes have a variety of end uses; many potatoes are sold in markets far removed from the Island's shores; potatoes are grown around the world and consequently are harvested at different times of the year; climatic conditions can affect crop yields; and the crop from each production area comes to market at different times of the year. Other factors, such as soil fertility, can determine the varieties grown and thus influence the end use of the product. Such facts are well known to those participants in the industry who are familiar with their major markets and the competition in those markets, and who are always seeking new markets and meeting new competition. In this respect, the marketing of Island potatoes is no more complex than the marketing of many other agricultural products grown world-wide. If complexity does exist, it is all the more necessary for the Island industry to know its markets and its competition, and to organize effectively in order to market efficiently. This chapter describes the end uses of Island potatoes, major markets for the crop, and the marketing system presently in place.

USES AND VARIETIES

The primary end uses for Island potatoes are for the tablestock, seed, and processing markets. Tablestock and seed potatoes may be sold within the province, to other provinces, the United States, or other countries. Most potatoes for processing are sold within the province, although some may be sold to other markets. The remainder of production is classified as either "cullage and loss" and does not reach the market, or is classified as "other", and is diverted from the market by government programs or retained by the grower.

Table 3A gives a breakdown of the disposition of Island potatoes for the years 1981 to 1985:

Table 3A

Disposition of Potatoes (P.E.I. - 1981-85)
(000,000 cwts.)

Crop Year	Tablestock	Seed	Local Use Seed & Processing	Cullage & Loss	Other	Total
1985	5.95	1.26	3.89	3.80	2.71	17.61
1984	8.10	2.02	4.07	4.89	-	19.08
1983	7.20	2.05	3.73	4.51	-	17.50
1982	6.93	1.76	3.88	5.55	-	18.12
1981	7.48	2.31	3.32	3.05		16.16
Total	35.66	9.40	18.89	21.80	2.71	88.47

Source: P.E.I. Department of Agriculture, Agricultural Statistics 1985, Table 39.

During the 1981-85 period, 35.66 million cwt., or 40.3 per cent of production, was sold as tablestock in all markets. Another 9.4 million cwt., or 10.6 per cent of production, was marketed as seed outside the province, while 18.89 million cwt., or 21.4 per cent was marketed within the province for either consumption, seed, or processing. The remainder of production was cullage and loss (24.6 per cent). In the year 1984-85, a government diversion program, introduced to offset oversupply and low prices, absorbed the remaining 3.1 per cent of production for the five-year period. If "cullage and loss" and "other" are excluded from Table 3A, the volume of marketable product was approximately 72.3 per cent of total production.

Of the product consumed within the province, it is estimated that about 200,000 cwt., or a little over 1 per cent of production, is consumed annually as tablestock. It is further estimated that about 1,400,000 cwt. is used for seed for the next year's crop, with the remainder used within the processing sector.[1]

The potato varieties grown on the Island are usually produced for more than one end use, because farmers prefer the flexibility of being able to service more than one market. In the 1985 crop year, the Island potato industry grew approximately 39 licensed varieties of potatoes in some quantity. However, only six varieties accounted for the bulk of potatoes produced. These were: Kennebec, Russett Burbank, Sebago, Superior, Red Pontiac, and Shepody. Table 3B gives a breakdown by acreage of the six major varieties passing inspection as certified seed for the five-year period 1981-85.

Table 3B

Acreage of Certified Seed Potatoes Passing Inspection by Variety
P.E.I. (Crop Years 1981-85)

	1981	1982	1983	1984	1985
Kennebec	16,309	17,380	15,761	15,617	13,679
Russett Burbank	15,627	18,993	20,259	21,823	20,452
Sebago	8,881	8,051	6,827	7,607	7,185
Superior	5,315	5,080	4,787	5,946	6,192
Red Pontiac	1,673	1,276	1,358	1,415	1,512
Shepody	217	684	941	1,398	2,449
Others	1,135	1,229	1,167	1,652	1,783
Total	49,157	52,693	51,100	55,458	53,252

Source: P.E.I. Department of Agriculture, *Agricultual Statistics 1985*, Table 46.

The Kennebec and Russett Burbank potatoes represent the Island's most frequently grown varieties, and in this decade, the Russett Burbank has surpassed the Kennebec in terms of acreage. Of the six major varieties grown on the Island, five produce high yields. In addition, all six varieties reflect a desire on the part of the Island farmer to serve diverse markets. These points will become evident in the following brief outline of each major variety.

Russett Burbank

The Russett Burbank belongs to the Russett group. It is the most popular variety grown on the Island and has achieved a dominant position. It is used by the french-fry plant at Cavendish Farms, is sold on the tablestock market, has found a strong market in the count carton trade, and is also sold on the seed export market.

However, the Russett Burbank is found to be less adaptable to climatic change than other varieties. The adoption of this variety by the Island potato industry has been phenomenal, given its relative obscurity on the Island in the 1960s. Russett Burbank produces high yields, but is also a very late-maturing potato, making it susceptible to the uncertain weather conditions of the autumn.[2]

Kennebec

The Kennebec variety belongs to the Round White group. It can be used on the tablestock and processing markets, but is found mostly on the seed export market because it is adaptable to climatic change.[3] This variety represents over 50 per cent of seed export shipments, and although it has been declining in terms of acreage grown in recent years, it ranks second highest among varieties grown on the Island.

Shepody

The Shepody variety belongs to the Long White group. It is used in the early french-fry market at Cavendish Farms, in the count carton trade, and also on the export seed market.[4] Although the Shepody's current market share and acreage is quite small, it has taken on a growing significance, and in 1985 replaced the Red Pontiac as the fifth-highest variety grown in the province. Many participants in the industry have high hopes for this variety.

Sebago

The Sebago variety belongs to the Round White group. It is used on the tablestock market and in processing; it is also quite popular in the seed export market, particularly in Venezuela.[5] The Sebago ranks as the Island's second-most popular seed export, surpassed only by the Kennebec. In recent years, this variety has stabilized in terms of acres grown, with acreage slightly down from the beginning of the 1980s.

Superior

The Superior variety belongs to the Round White group. Of the six major varieties grown on the Island, the Superior is considered to produce a medium yield as opposed to the high yield of other major varieties. The Superior can be used as chipping potatoes or on the tablestock market.[6] The Island industry markets this potato on the tablestock market, particularly in the early part of the marketing year. The variety tends to have limited popularity on the seed export market with the exception of the United States, because it tends to be less adaptable to climatic changes.

Red Pontiac

The Red Pontiac variety belongs to the Round Red group, and is sold on both the tablestock and seed export markets.[7] In terms of acreage grown on the Island, the Red Pontiac has remained stable; however, it has slipped to sixth place in popularity of varieties grown in the province.

ISLAND MARKETS

The major market destinations of both seed and tablestock potatoes shipped from the Island are noted in Table 3C.

Table 3C

External Destination of P.E.I. Potatoes (Seed & Tablestock)
Five-Year Annual Average 1981-82 to 1985-86

Destination	000 cwt.	Percentage
Ontario	2,603	28.9
Quebec	1,484	16.4
Newfoundland	538	5.9
Nova Scotia	610	6.8
New Brunswick	392	4.4
Other Canadian provinces	20	.2
U.S.A.	1,353	15.0
Off-Shore*	2,003	22.2
Total	9,013	100.0**

*Note: Refers to potatoes sold outside Canada and the United States.

**Note: May not add to exactly 100 per cent due to rounding.

Source: Agriculture Canada, Potato Market Review 1985-86, p.51.

The volume moved into various market destinations may vary from year to year. However, Table 3C gives an indication of Prince Edward Island's major markets. Ontario is by far the largest of these, followed by the off-shore markets, with the Quebec and United States markets ranking third and fourth respectively. The three other Atlantic provinces also represent major markets for Island potatoes.

The monthly movement of tablestock and seed potatoes to market for the 1985-86 marketing year is shown in Table 3D.

Table 3D

Monthly Movement of Island Potatoes (Tablestock and Seed) to Market Five-Year Annual Average, 1981-82 to 1985-86

Month	Volume (000 cwt.)	Percentage
To October 31	1,271	14.1
November	995	11.0
December	1,095	12.1
January	1,205	13.4
February	824	9.2
March	1,017	11.3
April	1,165	12.9
May	839	9.7
June	475	6.6
July	62	.1
Total	9,013	100.0*

*Note: May not add to exactly 100 per cent due to rounding.

Source: Agriculture Canada, Potato Market Review 1981-82, 1982-83, 1983-84, 1984-85, and 1985-86.

Table 3D indicates that potatoes begin moving to market in the fall and continue steadily into the spring. As spring turns to summer, the movement of potatoes tapers off to a minimum. The monthly movement of product is relatively evenly distributed throughout the marketing year until June; however, each marketing year does have its own distinct monthly movement pattern, which may diverge slightly from the annual averages presented in Table 3D.

Having identified the end uses and the major markets for Island potatoes, it may now be useful to discuss the major market sectors, which are as follows:

1. North American Market - Tablestock and Seed
2. Off-Shore Export Market
3. Process Market
4. Local (Elite) Seed Market

Following is a discussion of each of these markets.

North American Market - Tablestock and Seed

The North American market represents the largest destination for Island potatoes. It consists of all market destinations within Canada and the United States. North American markets are found primarily in provinces east of Manitoba and in the eastern United States, but from time to time potatoes are also marketed in other areas of North America.

In 1984-85, the Island shipped approximately 8.24 million cwt. into the North American market. This represented approximately 44 per cent of the total Island production, and approximately 58 per cent of the total marketable stock.[8] From this data, the significance of the North American market is self-evident.

The North American market consists of both seed and tablestock potatoes. In 1984-85, seed constituted approximately 9 per cent of shipments into the North American domestic market, and tablestock accounted for 91 per cent.[9] Within the tablestock component, it is useful to make some distinctions created by events of the 1980s. Traditionally, the Island either has shipped potatoes in bagged form (e.g., 5 lb., 10 lb., and 25 lb.) for purchase by the consumer, or in bulk for repacking outside the province. This type of product still accounts for the majority of tablestock shipments. However, in this decade, the industry has experienced the growth of the count pack trade which puts in boxes specific numbers of washed potatoes (e.g., 70s, 80s, and 90s) with a specific weight (e.g., 50 lbs.). The development of this sector was outlined briefly by Mr. Elwood Lawton of the Count Potato Association during the Commission's public hearings:

> ... the count potato was traditionally brought into this country from the United States up till maybe say five or six years ago we were an importer of this product, not an exporter. Whereas now, instead of us just producing the majority of the Canadian needs for this potato, we are supplying [the] eastern seaboard of [the] United States.[10]

The count pack component of the potato industry basically is aimed at the institutional market (e.g., restaurants). In the 1984-85 marketing year, approximately 375,884 cwt. of count pack potatoes from the Island were shipped into North American markets representing approximately 4.5 per cent of the total volume shipped.[11] In terms of volume, the count pack trade represents a small proportion of this market; however, it is more significant than the statistics indicate, as potatoes in this form capture a much higher price than the traditionally packaged and unwashed tablestock potatoes.

In terms of the North American market, Canada accounted for approximately 78 per cent of the Island's total marketing in 1984-85. The United States accounted for 22 per cent, having become an increasingly important market in the past decade.[12] Prince Edward Island tablestock exports to the United States were approximately 100,000 cwt. in 1976-77, whereas similar exports to that country in

1984-85 were well over 1.5 million cwt.[13] Although exports to the United States vary from year to year, many observers attribute increased Prince Edward Island sales into the United States as a result of the exchange rate. In 1976, the Canadian dollar to United States dollar exchange rate was .9861 whereas in 1984 it was 1.2948.[14] Although the exchange rate has undoubtedly been an important factor, there has been a tendency to overstate its significance because of inflation rates.

During the period 1976-83, the Canadian inflation rate ran approximately 2 per cent per year above the American rate. This would have the effect of offsetting a significant portion of the exchange rate advantage. Thus the impact of the exchange rate may be approximately half that indicated by the exchange rate itself. Moreover, the rising value of the American dollar relative to the Canadian dollar would increase United States tariff costs to Island shippers. At present, there is a 35¢ (American) tariff on fresh potatoes entering the United States. The tariff was actually slightly higher in the past, but as the American dollar grew stronger the effective tariff rate in Canadian dollars increased. For instance, if the exchange rate difference between the United States and Canada was 25 per cent and it rose to 30 per cent, the effective tariff rate in Canadian dollars would rise from approximately 43¢ to 45.5¢ (Canadian) per cwt. The combination of higher inflation in Canada and the exchange rate impact on the tariff would reduce the effect of the overall exchange rate on Island potato sales in the United States.[15] The exchange rate has had an overall positive effect on sales to that market, but emphasis placed by dealers on servicing the American market in the past decade should not be underestimated as another important factor.

The market chain for Island potatoes has similar characteristics both in the United States and Canada. However, the transactions involved in getting the product to the end user (consumer) may take several forms. A typical Island potato may move from an Island grower to an Island dealer (unless, the grower is also a dealer), who will offer the grower a price based on what the customer is willing to pay, minus the dealer margin and transport costs. The grower then decides whether to sell at the price offered.

Island dealers market through a broker, dealer (wholesaler), or retailer in the market of destination. If the order originates off-Island, the dealer in that market buys and resells the potatoes to his customer, who is usually a retailer but may be another dealer. Another marketing method involves a broker who originates the order working on a fixed fee. In this case the broker finds a buyer for an Island dealer (the buyer could be an off-Island dealer or retailer). A further method involves the sale of potatoes by an Island dealer directly to an off-Island retailer, hence eliminating a number of middlemen.

The conclusion which must be drawn from an explanation of the market chain is that the number of transactions involved in moving Island potatoes can be as few as two (when an Island grower/dealer sells to a retailer who in turn sells to the consumer), or as many as four or more.

In the Commission's discussion with the industry, it appeared that direct Island dealer sales to retailers are less common than those to off-Island brokers and dealers. The benefits of reducing the number of transactions involved in getting the product to the consumer are obvious. Fewer transactions means the elimination of margins taken by intermediaries. Fewer intermediaries means that less of the grower's price is needed to compensate each player in the market chain. However, it must be recognized that the produce trade has built up over many years and involves certain relationships which are difficult to restructure, and in many cases may actually prove efficient for all concerned. That being said, the more transactions involved in moving the product to the consumer, the less advantage there is to the primary producer, simply because the producer's price is eroded due to increased marketing costs.

The margin taken by various players in the potato marketing chain differs according to their role in the system. The Island dealer works on a gross margin objective of about 50¢ per cwt.[16] This can vary from transaction to transaction, or from year to year but 50¢ per cwt. is the usual margin. Canadian brokers work on a fixed fee of 25¢ per cwt.; it is reported that American brokers work on a margin of 10¢ (U.S.) per cwt. The margin for off-Island dealers is difficult to establish, although discussions with a major purchaser of Island potatoes - MacKay-Hughes of Toronto, which claims to be a dealer - indicate that they work on a net margin objective of 33¢ per cwt.[17] Retailers usually work on a margin of 35 per cent of the sale price of potatoes, or slighly greater than 50 per cent of the purchase cost to the retailer.[18] However, should retailers run a "special" on Island potatoes, they may take a very slight margin on that product in order to attract people to the store.

The margins taken by different players in the marketing chain reflect differing risks because of different obligations. Island dealers must work on a higher margin than brokers simply because they take possession of the product and must have it delivered to market. The Island dealer's role has many associated responsibilities and risks. For instance, transportation must be arranged, credit must be extended for a payment period, payment must be collected from the purchaser, and the possibility exists of a claim against the product once it arrives. On the other hand, the broker does not take possession of the product and is responsible only for bringing a buyer and seller together. Off-Island dealers would have many of the risks of the on-Island dealers because their functions are basically the same. However, off-Island dealers may not be faced with as great a risk in terms of transportation and the collection of payment, since they are less likely to be as far removed from the market as Island dealers. Retailers also bear risks associated with possession, such as spoilage and unsold product. They may also have a large regular sales margin to compensate for specials when retail margins are negligible.

Having established the margins of a number of players in the market it is possible to give a general picture of the costs involved in moving a cwt. of potatoes from the farmgate to the consumer in a major market destination such as Toronto. Prior to doing this, however, some additional information is necessary. The Board's levy must be included as a cost factor. This represents 10¢ per cwt. (7¢ per producer and 3¢ per dealer). In addition, transportation costs have to be included. According to the Atlantic Provinces Transportation Commission, the cost of moving a cwt. of potatoes from the Island to Toronto using truck transport is approximately \$2.20.[19] It is to be assumed that the dealer in Toronto operates on a gross margin objective of 50¢ per cwt., given that the major dealer in that market has indicated a net margin objective of 33¢ per cwt.

In the series of transactions presented in Table 3E, potatoes are sold by an Island grower to an Island dealer who then sells to a Toronto dealer, who re-sells to a retailer. The data presented is based on 10 lb. bags of potatoes with a farmgate price of 3¢ per pound, which is comparable to the farmgate price received in the marketing year 1985-86.

Table 3E

Costs Associated with Moving 10 lbs. of Potatoes From Island Farmgate to Consumer (Toronto) and Percentage Shares at Various Levels of the Marketing Chain

	10 lbs./bags (cents per lb.)		Percentage Shares	
Farmgate Price	3.00		31.7	
P.E.I. Dealer Gross Margin (.50¢)	.50		5.3	
Levy (.10¢)	.10		1.0	
Transportation (Truck)	2.20		23.3	
Delivered Price Toronto		5.80		61.3
Toronto Dealer Gross Margin	.50		5.3	
Wholesale Price		6.30		66.6
Retail Mark-Up (50%)	3.15		33.4	
Retail Price (Price to Consumer)		9.45		100.0

Table 3E gives an indication of the costs associated with moving tablestock potatoes to the end user in a major market destination. While this is a theoretical model based on information obtained by the Commission, it does place into perspective the costs associated with moving the product to a major market destination. Moreover, Table 3E gives an indication of the shares which participants in the marketing chain should receive from the consumer's purchase. At a price of 3¢ per lb. for 10 lb. bags, the farmer ought to receive approximately 31.7 per cent of the consumer's dollar. This theoretical producer share provides a yardstick against which to measure reality.

Table 3F provides a breakdown of Island producer shares of retail prices for selected months in the Toronto market during the 1985-86 marketing year.

Table 3F

Island Producer Shares of Retail Prices by Selected Months for 10 lb. Bags
Toronto Market, 1985-86

Month*	Island Producer Price F.O.B. Shipping Point (cents per lb.)	Average Retail Price Toronto (cents per lb.)	Producer Share of Retail Price
October	3.4	13.1	26.0
January	2.7	16.7	16.2
April	3.1	15.5	20.1
July	5.4	35.4	15.2

*Note: Quarterly, surveyed the first week of the month.

Sources: Agriculture Canada, Potato Market Review 1985-86;
Statistics Canada, Retail Prices by City, 1985-86.

Table 3F shows producer shares ranging from a high of 26 per cent of retail prices in October of 1985, to a low of 15.2 per cent in July of 1986. In all months, the producer share was much less than would be justifiable if all intermediaries were taking a margin on which they reportedly operate. In April, the Island producer price was 3.1¢ per lb., which represented 20.1 per cent of the retail price. While the producer price is comparable to the farmgate price found in Table 3E, the producer share is over 10 per cent less than what it theoretically should be, as dictated by moving the product from the farmer to the consumer.

The divergence in producer shares between the yardstick established in Table 3E and the reality represented in Table 3F leads to major questions. First, it suggests that intermediary margins in the system are often much higher than reported. Second, it suggests that the marketing system does not distribute income among the various players in the marketing chain as equitably as it should. Evidently farmers are not receiving the share of the consumer dollar to which they would be entitled under a competitive market situation. The fact that the producer is not receiving an appropriate share of the consumer price points to inefficiencies in the marketplace, a result perhaps of the monopolistic nature of the market.

The marketing of tablestock and seed potatoes outside the province is, as of the current year, the responsibility of 83 dealers licensed by the Board.[20] Although this indicates that a large number of dealers are involved in the market, the movement of product is by no means evenly distributed. As Table 3G indicates, 20 dealers accounted for over 80 per cent of potatoes moved from the province in the 1984-85 marketing year, with nearly 50 per cent of the product moved by the six largest dealers. Among the largest potato dealers in the province are P.E.I. Produce Ltd., Eric Robinson Incorporated, Boyd MacDonald Produce Ltd., McKenna Bros. Ltd., and Lawton Produce Ltd.[21] It is evident from Table 3G that there is a significant degree of concentration in the marketing of Island potatoes, a fact which the overall dealer numbers tend to mask.

Table 3G

P.E.I. Dealers Scale of Operation, 1984-85

Dealer	Shipments 000 cwt.	Percentage of Total	Cumulative Percentage of Total
1.	1,473.3	14.3	14.3
2.	1,112.9	10.8	25.1
3.	770.8	7.5	32.6
4.	762.4	7.4	40.0
5.	486.1	4.7	44.7
6.	454.6	4.4	49.1
7.	411.1	4.0	53.1
8.	405.4	3.9	57.0
9.	351.6	3.4	60.4
10.	293.3	2.8	63.2
11.	274.4	2.7	65.9
12.	244.9	2.4	68.3
13.	230.3	2.2	70.5
14.	185.5	1.8	72.3
15.	172.8	1.7	74.0
16.	168.1	1.6	75.6
17.	161.6	1.6	77.2
18.	142.8	1.4	78.6
19.	125.1	1.2	79.8
20.	116.4	1.1	80.9
Others	1,938.1	19.1	100.0
	10,281.5	100.0	

Source: Prince Edward Island Potato Marketing Board; information requested by the Commission.

The vast majority of registered dealers in the province are also producers. Only five registered dealers do not grow potatoes. However, those dealers without production are among the major marketers of Island potatoes. A vast majority of the producer-dealers move mostly their own product, but some are also among the major marketers of Island potatoes.

Within the North American market, there are literally hundreds of potential purchasers of Island potatoes to be found at the wholesale and retail levels. Island potatoes are sold in some quantity to a number of dealers and retailers at the market destinations. Table 3H gives the number of buyers in each major market, the number of significant buyers and the share purchased by the largest buyer in each market for the year 1984-85.

Table 3H

P.E.I. Sales of Potatoes by Selected Regions and Importance of Major Buyers in 1984-85

Market	Dollar Value	No. of Significant Buyers		Percentage Share of Largest Buyer
		Total	$5,000+	
Toronto region	2,442,926	29	15	72
Montreal region	914,742	53	37	10
New Brunswick	888,866	49	17	61
Nova Scotia	805,505	60	19	33
Ontario region	523,491	59	22	23
Massachusetts	456,286	36	17	18
Quebec region	431,817	58	17	31
Maine	389,743	17	7	62
New York	267,277	33	13	33
St. John's, Nfld.	263,346	16	9	27
Nfld. region	178,971	32	10	21
Pennsylvania	151,132	17	8	24
Manitoba	127,534	4	3	89
Ottawa	115,132	17	4	53
New Jersey	99,234	15	4	56
Florida	63,869	21	4	22
Michigan	56,741	3	2	85
Connecticut	53,415	14	2	43
Delaware	29,445	9	4	22
Missouri	17,882	1	1	100

Source: Prince Edward Island Potato Marketing Board; information requested by the Commission. Markets with sales of less than $10,000 not included, e.g., Alabama, Alberta, Gaspe, Maryland, Montana, North Carolina, North Dakota, New Hampshire, Tennessee, and Virginia, for a total additional sales value of $34,685.

Table 3H quite clearly demonstrates that, while there are many buyers of Island potatoes in many major markets, the number of buyers purchasing at least $5,000 worth of potatoes is considerably smaller. Of more importance is the fact that, in a number of major markets, a significant portion of potatoes are purchased by a few dealers.

The significance of a single buyer in many of the Island's major markets points to the high level of market concentration in the potato industry. When concentration at the market end is considered in combination with the concentration of dealer market shares on the Island, where 20 dealers control 80 per cent of the product, it is clear that the market is monopolistic in nature. While the number of major dealers on the Island is limited, there are even fewer major buyers to be found at the market end. Concentration of marketing among the Island's major dealers could assist in balancing market power held by major buyers in some market destinations. However, the market power potential of major Island dealers is undermined by the existence of many small producer-dealers who have limited ability to influence the market. This point will be discussed in some detail later.

The existence of market concentration at the market end can have a profound impact on the operation of the market and on returns to farmers. A firm which controls a significant portion of the product entering a major market has the potential to extract more from suppliers and the marketplace than ordinarily would be justifiable in a competitive market situation. The example of MacKay-Hughes of Toronto, the major purchaser of Island potatoes, tends to illustrate this point.

MacKay-Hughes is currently the Toronto division of Gemini Food Corporation. Prior to 1984, MacKay-Hughes Ltd. was owned and co-managed by Mr. David MacKay and Mr. Tom Hughes. In August 1984, Gemini Food purchased MacKay-Hughes for the sum of $4.8 million, of which $3.84 million was paid in cash, and the remaining $.96 million in the form of stock issues to companies controlled by Mr. MacKay and Mr. Hughes respectively. Hence, both partners in MacKay-Hughes Ltd. maintained an equity interest in the business under the umbrella of Gemini Food Corporation. Mr. MacKay, through Davemac Investments Ltd., owns 16.3 per cent of Gemini. Mr. Hughes, through Tomkay Investments Ltd. and some personal shares, owns 16.5 per cent. Another major equity holder is Coleman Bernstein, former owner of Gemini Farms Ltd., who through his companies Colev Corporation and Colbern Equities Ltd. owns 19.4 per cent equity interest in Gemini. Mr. Millard Roth, through Business Ventureco Inc., owns 17.2 per cent interest in Gemini Food Corporation.[22] It appears that the Roth family was instrumental in the consolidation into one firm of Gemini Farms Ltd. and MacKay-Hughes Ltd. Prior to the merger, Gemini Farms was a distributor and packager of many vegetable products, while MacKay-Hughes distributed and packaged potatoes only. The two entities have maintained their distinct functions despite the merger.

MacKay-Hughes Ltd. was established in 1963 by Mr. MacKay and Mr. Hughes.[23] From a modest beginning, MacKay-Hughes developed into one of the major potato distributors in the country. The firm currently has a 35,000 square foot warehouse at its headquarters on Browns Line Road in Toronto.[24] MacKay-Hughes moved approximately 3.3 million cwt. of potatoes through its operation in the fiscal year 1986.[25] Although a significant portion of these potatoes came from the Island, the firm also purchases potatoes elsewhere in Canada and in the United States.

The close relationship of Mackay-Hughes Ltd. to the Island potato industry is not surprising. Both Mr. MacKay and Mr. Hughes have family connections on the Island, and both are well known to participants inside and outside the Island potato industry. These connections with the Island no doubt have helped the firm to develop loyal suppliers of potatoes from Prince Edward Island. In 1984-85, MacKay-Hughes handled 72 per cent of Island potatoes in the Toronto market.[26]

In February 1968, in response to allegations of discriminatory and undesirable trade practices, the Ontario government ordered the Ontario Food Council to conduct An Inquiry into Matters Relating to the Sale and Distribution of Fruits and Vegetables in the Province of Ontario. The actions of a number of Ontario produce dealers came under the Council's scrutiny, including a business transaction between Mackay-Hughes Ltd. and a Mr. Gifford, an employee of Steinbergs in Toronto. The Report concluded that:

> After considering all the evidence and the factors outlined above, we conclude this arrangement was for personal financial gain for MacKay & Hughes and Gifford; and that it was essentially the same as the Gifford-Arrigo payola arrangement.[27]

The Report also made an observation with respect to a transaction involving MacKay-Hughes and a potato grower, and concluded that:

> In this potato transaction, Mackay & Hughes acted as a buyer of 10-pound bags of potatoes from the growers (Marshall Alderson Farms) but also charged a brokerage fee. Acting as a buyer and a broker on the same transaction is unethical and is completely unacceptable on the part of a licensed dealer.[28]

The conclusions of the Ontario Food Council indicate that questionable business practices existed in Ontario in the late 1960s. The Commission has been informed by reliable sources within the Ontario produce trade that such practices have been largely eliminated since then.

In the Commission's view, MacKay-Hughes represents a near monopoly in the large and lucrative Toronto market. A monopoly or near-monopoly situation allows a firm to extract benefits from the market and the firm's suppliers that it otherwise might be unable to do in a competitive situation. These gains may be manifest in many ways. Perhaps the most disturbing advantage to any buyer in a monopoly position is in the form of transactions which take place between the dominant buyer and Island dealers. The following illustrates such a transaction.

An Island dealer decides to sell a load of potatoes to a dominant buyer. If the price per cwt. offered by the dominant buyer is the same or higher than the dealer could receive by selling through a broker, then the brokerage fee (25¢ per cwt.) is deducted from the price. The dominant buyer takes possession of the product and re-sells it to customers. In discussions with Island dealers, the Commission has learned that this may be a common practice of MacKay-Hughes. Evidence of this practice is supported also by a statement made by Gerritt Visser, president of the Prince Edward Island Federation of Agriculture at the Commission's public hearings:

> ... although at MacKay-Hughes they have two phones there and one is a dealer and one is a broker but like [another Toronto broker] Lee Brokers, you know those people they deal strictly on commission and there is 25¢ per hundred....[29]

Mr. Visser's opinion is supported by the General Manager of the Board, who at the public hearings acknowledged that "they [MacKay-Hughes] do both [act as broker and dealer],..."[30]

The effects of this business practice are numerous. Any benefits the Island dealer may gain by avoiding the services of a broker are lost. Moreover, the buyer is able to make a broker's fee merely by agreeing to purchase the product, and has the chance of making a further margin on the resale of the product. In other words, any company in such a position has the potential of acting as both dealer and broker on the same transaction. The Commission, like the Ontario Food Council in 1969, finds such practices completely unacceptable. What is most discouraging is that the Island industry seems to have accepted them.

The existence of dominant buyers in any market, and the potential advantages they gain, is no reflection on the participants, provided they act as either a dealer or broker and not both. Such is the natural result of the open market. What the Commission does find disturbing is the apparent lack of concern and information about the practices of the major buyer in the Toronto market. During its public hearings the Commission asked a number of groups, including the Board, about such business practices, but it obtained little information.

Canadian laws governing the licensing of dealers, brokers, and commission merchants appear to provide limited protection for producers. Such licensing falls under the purview of the Licensing and Arbitration Regulations of the Canadian Agricultural Products Standards Act (1955, cap. 27, s. 1). The following excerpt from a letter written to the Commission by the Food Production and Inspection Branch, Agriculture Canada clarifies these regulations with respect to licensing.

> There is one licence issued to each successful applicant of a licence authorizing him to engage in the business of a dealer, broker and commission merchant. This information becomes part of the information published when lists of licensees are prepared and distributed to other licensees and industry members.
>
> When a licensee engages in business other than the primary type of business indicated on his licence application, he is required to declare this on the Standard Confirmation of Sale or other appropriate documents. In other words, a cross-over of function is permitted as long as there is full written disclosure to the parties involved in these types of transactions. Although a licensee may perform more than one function, it is not the intent of the regultions to enable a licensee to collect twice on the same load.[31]

While it may not be the intent of the regulations to permit licensees to act as both a dealer and a broker on the same transaction, the possibility certainly does exist. The mere allowance of cross-over of function invites abuse.

In the Commission's view, it would be preferable for the Island industry if federal regulations did not permit cross-over of function between broker, dealer, and commission merchant. This is a matter which the provincial government and potato industry officials ought to examine and, if necessary, make recommendations to federal authorities.

Despite the monopolistic position of MacKay-Hughes in the industry's most important market, the company is important to the Island industry. First, it promotes the sale of Island potatoes in the Toronto market. Second, it is known for paying promptly for the potatoes purchased from Island dealers, a major benefit for many Island dealers who are often required to put considerable effort into collecting bills. However, the question remains whether these features justify placing the Island potato industry in such a vulnerable bargaining position.

While MacKay-Hughes stands as a major example of market concentration, this firm represents but one market destination. There are a number of other instances where one firm handles a majority of the Island products entering a market. Henry A. Pollack Riverhead Corporation purchased 62 per cent of Island potatoes sold in Maine in the 1984-85 marketing year.[32] This firm - a major American dealer based in Riverhead, New York - often buys Island potatoes in bulk, then packages and re-sells them into the New England market.[33] In this marketing relationship, the Island industry is selling unpackaged produce to an off-Island dealer in Maine who is removed from the eventual market destination (e.g., Boston). This represents not only a loss of value added and employment for the Island, but also highlights the marketing power of the company. Otherwise, it would seem logical to expect the Island industry to sell directly rather than indirectly to the market destination.

Nova Scotia is another market destination in which one firm purchases a significant portion of Island potatoes. Clover Produce Ltd. purchased 33.2 per cent of Island potatoes on the Nova Scotia market in 1984-85, while Sobeys Stores Ltd. purchased 12.3 per cent.[34] Clover Produce Ltd. is a wholly-owned subsidiary of Sobeys Stores Ltd.[35] Hence, Sobeys purchased 45.5 per cent of all Island potatoes sold in Nova Scotia. The Sobeys chain is one of the largest food retailers in the Maritime region, and obviously has a significant influence over Island potatoes on the Nova Scotia market.

A further example of market concentration is found in New Brunswick. In 1984-85, 61 per cent of Island potatoes offered on the market in New Brunswick were sold through McCain Foods Ltd., a major processor in that province.[36] The company is also involved in the seed export business. Due to its position in the New Brunswick and Canadian potato industry, McCain Foods is a major market force.

In the Montreal market, no one buyer purchases a significant portion of Island potatoes. For example, in 1984-85 Steinbergs Inc. topped the list with a purchase of only 10 per cent of Island potatoes sold in the Montreal market.[37] However, the wide use of brokers in this market tends to disguise the actual wholesale distribution of Island potatoes. The brokerage firm of F.W. Ward and Son handles approximately 50 per cent of the brokerage business for Island potatoes in the Montreal market.[38]

There are several other examples of concentration found in Island potato market destinations. In 1984-85 the following sales of Island potatoes were made: Carnation Foods purchased 89 per cent in Manitoba; T.E. Food Products purchased 53 per cent in Ottawa; Potato Services of Michigan purchased 85 per cent in Michigan; Havana Potatoes Corporation purchased 56 per cent in New Jersey; Customer Brokerage Service Corporation purchased 33 per cent in New York; John A. Pirrello Company Inc. purchased 43 per cent in Connecticut; Green Lantern Wholesalers Ltd. purchased 21 per cent in the Newfoundland region; and Spud Express purchased 18 per cent in Massachusetts.[39]

The degree of concentration varies from one market destination to the next. However, in general there exists an off-Island market which is monopolistic in nature. This view appears to concur with an observation made by the National Farmers Union in its brief to the Commission: "Domestic table potatoes representing about 42% of the disposable product is an important sector the control of which is highly concentrated."[40] This concentration is of greater concern in market destinations where the volume of Island potatoes marketed is large.

An implication of the existence of a dominant buyer in any market is that it creates the potential for market manipulation, which is easily orchestrated. For instance, a buyer in a dominant market position who has warehousing facilities can slowly edge the price down by playing off Island dealers against each other. After reducing the price to a particular level, the buyer can purchase a large volume of potatoes and store it in a warehouse at the market destination. Having purchased a large volume at a relatively low price, the buyer can quickly move the price upward by purchasing a load of potatoes from an Island dealer at a higher price. Other buyers in that market destination must follow suit as the dominant buyer is the price setter. Such a practice enables the dominant buyer to purchase a large volume of potatoes at a low price and sell at a higher price. Hence, a dominant buyer is in a position to gain a windfall from price adjustment, in addition to his margin objectives. While such a practice on the part of any company is difficult to prove, it is the opinion of many in the industry, including dealers, that such market manipulation does occur. In the Commission's view, the potential certainly exists for any buyer in a monopolistic position to exercise market manipulation.

On Prince Edward Island there is also a concentration of product movement among 20 dealers, despite the fact that there are over 80 registered dealers. This could be a valuable tool in combatting concentration found in off-Island markets. However, the potential influence of major dealers who deal mostly in the product of other farmers may be undermined by the margin-shaving practices of smaller suppliers who are usually producer-dealers. Margin-shaving involves a producer-dealer lowering his margin objective to sell his product. From the perspective of producer-dealers, this can be done and still be perceived as economically beneficial as, in all likelihood, they would receive a farmgate price plus a margin for the potatoes. While such a practice may have a positive benefit for a particular individual on a particular transaction, it may have a very negative impact on the price for Island potatoes in general. Once a lower price and a dealer margin total is established, other dealers must meet it, which means that major Island dealers must lower the farmgate price in order to meet their margin. The downward effect on price as a result of margin-shaving raises the whole question of the appropriate number of Island dealers and their necessary qualifications.

The question of dealer numbers and potential margin-shaving (or price undercutting) was raised by the Commission during its public hearings and in private consultations with members of the Island industry. The following exchange between Dale Linkletter of Linkletter Farms and the Commission during the public hearings clearly outlines this relationship:[41]

> Commission Assistant: ... In other words because there are so many dealers, does that promote some degree of undercutting?
>
> Dale Linkletter: Yes, it does.
>
> Commission Assistant: Price undercutting?
>
> Dale Linlketter: I guess, where do you strike the balance. Certainly if there's less, fewer dealers, this price undercutting would not be such a big factor. But at the same time if you do that you're limiting the rights of growers to deliver their potatoes to market.
>
> Commissioner: Is it, though, a big factor?
>
> Dale Linkletter: Yes, by times it is, because it allows the buyers in Toronto to play us against each other to get the price down. I mean, buyers of potatoes for stores in Toronto, for chains, their prime consideration is to buy a product as cheaply as they can. That's the name of their game. They have to buy it as cheap as they can and be competitive. If they can work two people against each other, two growers against

each other to buy at half a cent less then they are certainly capable of doing that.

Commissioner: And the large number of dealers down here that they can phone for an order contributes to that competition.

Dale Linkletter: Yes, it does. Especially when the market is weak.

While the Island industry has relatively few large sellers, it has never been able to organize itself to deal effectively with an even fewer number of large buyers outside the province. As a result, the Island industry has been, and continues to be, in a relatively weak position. The individual farmer, however, is in an even weaker position. He must face relatively large Island dealers who in turn must face even larger off-Island dealers and retailers.

The weak bargaining position of the Island industry and the individual farmer is demonstrated in the marketplace. Table 31 gives a comparison of adjustments in shipping-point prices on Prince Edward Island with adjustments in wholesale prices in some of the Island's major markets. The prices are not strictly comparable, but Table 31 does illustrate how price adjustments to both the producer price and wholesale price can be substantially different.

Table 3I

Comparison of Monthly Adjustments in Grower Bulk Price/Cwt. at Shipping Point and Wholesale Quotations, Prices at Month-End Per 50-lb. Bag of P.E.I. Potatoes in Selected Cities, and Average Monthly Grower Shipping Point Price, P.E.I. 1985-86

Month	Grower Price Monthly Average Shipping Point		Month-End Wholesale Price					
			Montreal		Ottawa		Toronto	
	Price	Adjustment	Price	Adjustment	Price	Adjustment	Price	Adjustment
October	1.86	-	2.95	-	3.25	-	3.38	-
November	1.68	-.18	3.13	+18	3.18	-.07	3.38	0
December	1.52	-.16	3.13	0	3.43	+.25	3.38	0
January	1.47	-.05	2.80	-23	3.43	0	3.13	0
February	1.28	-.19	2.88	+8	2.98	-.45	2.88	-.25
March	1.37	+.09	2.88	0	3.23	+.25	3.13	+.25
April	1.72	+.35	4.05	+17	3.40	+.17	3.38	+.25
May	1.80	+.08	4.13	+.08	4.30	+.90	3.13	-.25
June	1.93	+.13	4.00	-.13	4.10	-.20	3.13	0
July	2.78	+.85	5.33	+1.13	---		4.75	+1.62
AVERAGE			3.48		3.48		3.36	

Source: P.E.I. Department of Agriculture, Statistics Services, Marketing Branch

Table 3I clearly indicates that producer prices do not reflect material gains in market prices until very late in the season. For 1985-86, price spreads increased from about $1.00 and $1.50 at Montreal and Toronto respectively, to over $2.00 per unit in these centres. While the wholesale prices do not necessarily reflect the prices at which the bulk of private treaty product from the Island moved to market, significantly larger intermediary gains in Montreal and Ottawa are indicated during a period of great anxiety and distress for producers. Interestingly, in the Toronto market this was not as pronounced. The existing market sentiment and the perception of distressed market conditions persuaded farmers to sell at lower prices than in retrospect the market justified in some parts of the season. This points to improper information being relayed back to farmers, and intermediaries being allowed to make gains in some markets. In general it illustrates the rather weak bargaining position of the Island producer vis-a-vis other actors in the marketing chain. Table 3I also reflects inefficiencies in the marketplace.

The Island producers' share of the consumer dollar relative to that of producers in other provinces is quite revealing. In determining the producer shares in each province, the Commission selected retail prices in major market destinations for potatoes produced in a particular province. For instance, in the case of Manitoba, Winnipeg was selected. Table 3J provides a comparison of producer shares of retail prices in selected markets for 1985-86.

Table 5J

Comparison of Producer Shares of Retail Prices, by Selected Provinces, Quarterly, 1985-86

Month	Producer Price* (¢ per lb.)	Average Retail** (¢ per lb.)	Provincial Producer Share (%)	Producer Price* (¢ per lb.)	Average Retail** (¢ per lb.)	Provincial Producer Share (%)
	P.E.I.	Toronto		N.B.	Montreal	
October	3.34	13.1	25.5	3.03	10.4	31.7
January	2.56	16.7	15.3	2.52	12.1	20.8
April	3.06	15.5	19.7	1.84	12.6	14.4
July	3.46	35.4	9.8	2.52	21.1	11.9
	Quebec	Montreal		Manitoba	Winnipeg	
October	3.24	10.4	31.2	8.30	14.5	57.2
January	3.24	12.1	26.8	8.00	15.2	52.6
April	3.28	12.6	26.0	7.88	15.1	52.5
July	4.47	21.1	21.2	7.70	15.1	51.0
	Alberta	Edmonton		B.C.	Vancouver	
October	6.42	19.3	33.3	8.62	18.60	46.3
January	9.52	21.2	44.9	12.62	23.20	54.3
April	9.12	24.2	37.7	11.62	21.40	59.3
July	10.12	33.4	30.3	11.62	29.20	39.8

*Note: Based on a monthly simple average of weekly observations of F.O.B. shipping point prices in 50 lb. bags. Cursory analysis indicates that 10 lb. bag prices are 50¢ to 75¢ per lb. higher in the East. The producer shares would be understated as a consequence. These prices have therefore been adjusted upward by .625.

**Note: Based on retail prices in 10 lb. bags, surveyed quarterly during the first week of the month.

Sources: Agriculture Canada, Potato Market Review, 1985-86; June prices are used for July comparison. No market figures are available for Ontario, pp. 35, 38, 45.

Statistics Canada. (The potato sources are not specified)

Table 3J clearly indicates that Island producer shares of the consumer dollar are generally much lower than those obtained in other provinces. This is attributable to three factors. First, the Island is far removed from its markets. In this respect, it is similar to New Brunswick, albeit transportation is of more significance for Island producers. Second, the Island does not have a major local market. Again, it shares this characteristic with the New Brunswick industry. Third, producers are relatively disorganized in their approach to the marketplace.

Within eastern Canada, the Quebec industry provides an important contrast to that of the Island. First, Quebec producers are close to their major market, thus reducing transportation costs. Second, they sell into a local market. Third, they are relatively more organized than Island producers. This latter point will be discussed later in the chapter. These three factors contribute to Quebec producer shares being higher than those achieved by Island producers.

Table 3J also indicates that producer shares are much higher in western Canada compared to eastern Canada. This is largely a function of proximity to markets and captive markets. In some cases, it is also partially attributable to producer organization such as is the case in Manitoba. This last point will also be discussed later in the chapter.

In summary, Island producer shares are amongst the lowest of any other producing province in Canada, this being attributable both to geography and disorganization. This is a reality, in spite of the claim that the Island industry receives a premium for its potatoes.

It is believed generally that Island potatoes command a premium over potatoes from most other producing provinces and states, that the Island supposedly has a higher-quality potato for which consumers are willing to pay a premium. At the Commission's public hearings, the Board acknowledged a "premium price which we [the Island industry] have been able to get also over our competition whether it be from Quebec within the Montreal or whether it be from Ontario and Toronto."[42] The best means of determining whether a premium is paid is to compare the price received for Island potatoes to the price received for potatoes grown in the local province. This is done in Table 3K.

Table 3K

Comparison of Wholesale-to-Retail Price Quotations for P.E.I Potatoes and Locally-Grown Potatoes in Montreal and Toronto Markets Dollars per 50 lb. Bag - 1984-85*

	MONTREAL			TORONTO		
Month	Quebec Potatoes	P.E.I. Potatoes	Premium	Ontario Potatoes	P.E.I. Potatoes	Premium
October	$2.88	$3.62	$.74	$3.75	$3.88	$.13
November	3.12	3.80	.68	3.75	3.88	.13
December	3.12	3.80	.68	3.75	3.88	.13
January	3.38	4.12	.74	4.00	4.13	.13
February	3.32	3.88	.56	4.00	4.13	.13
March	3.20	4.12	.92	4.25	4.13	-.12
April	3.62	4.38	.76	4.25	4.13	-.12
May	5.12	5.88	.76	5.25	6.25	1.00
June	4.88	5.50	.62	5.25	6.25	1.00

*Note: Prices based on last quotation in each month. Where quotations were expressed in terms of price ranges, an average was calculated for each month end quotation.

Source: Agriculture Canada, Potato Market Review, 1984-85, pp. 36, 38.

Table 3K indicates that, in the Montreal market, Prince Edward Island potatoes command a significant premium over the locally-grown Quebec product. The premium for a 50 lb. bag ranged between 56¢ and 92¢ throughout the marketing year. On the other hand, in the Toronto market, the data indicates a slight premium of 13¢ per 50 lb. bag from October to February. In March and April there was no premium for Island potatoes; however, a significant premium was available for the remaining product in May and June. In general it must be concluded that, at the wholesale-to-retail level, a significant premium for Island potatoes exists in the Montreal market throughout the marketing year, whereas in Toronto, the premium is very small, if not negligible.

Premiums are important to the Island's competitive position in that they help offset costs associated with moving the product long distances to the marketplace. The wholesale-t- retail premium in Montreal would eventually reflect back to the Island industry and help offset transportation costs. The small premium received in Toronto would also reflect back to the Island industry. However, its impact would be much less than the premium received in Montreal. Interestingly, the Commission has learned that, at the Toronto retail level, Island potatoes receive a significant premium over local Ontario potatoes due to consumer preference. The data presented in Table 3K indicates that this premium is not being fully captured at the wholesale level. If premiums are not being captured at this level, it is most unlikely that retail premiums are being passed back to the Island industry. The disappearance of the premium for Island potatoes ought to be examined by the industry.

The major competition for Island potatoes comes from fall producing areas found in other Canadian provinces and American states. In both Ontario and Quebec, the Island industry competes primarily with the product grown by producers in their respective provinces, although some product enters those markets from New Brunswick and some American states. In Quebec, and to a lesser extent in Ontario, Island potatoes carry a premium over the local product. In recent years, the Quebec industry has become more aggressive, producing increased volume with the aid of a provincial government income stabilization plan, and making strong appeals to the produce trade and consumers to buy local Quebec potatoes. In Ontario, the dynamic approach found in Quebec is not as pronounced, but the industry has certainly become more organized and aggressive in the past decade. The Ontario industry has also been making strong overtures to the province's produce trade to support the provincial industry.

The New Brunswick industry, of course, is also a major competitor for the Island, particulary in the markets of Quebec, the Maritimes, and the United States. New Brunswick's industry is perhaps not as strong a competitor as it was once in the tablestock market; during the past couple of decades the New Brunswick industry suffered a loss of market share in such places as Quebec.[43] Moreover, New Brunswick's industry has shifted its marketing focus toward the processing sector. A major portion of New Brunswick tablestock markets is currently in the United States.

In terms of American competitors, the Island must compete with such states as Maine, Idaho, Oregon, and Washington. The Maine industry grows primarily Round White potatoes for the tablestock market. It also produces seed potatoes. The potato industry in Idaho, Oregon, and Washington was built largely on the Russett Burbank. These three states account for approximately 63 per cent of American fall production, largely due to high potato acreages and yields. The Idaho industry is best known for its baker potato, and poses the major competition for the Island industry in the American count pack trade.[44]

The fall producing provinces and states in North America operate within the same open-market framework as does the Prince Edward Island industry. However, there are distinct marketing approaches found in some jurisdictions.

In Quebec, the industry formed a producer company in 1985, known as Pomexpan. Producers purchase shares in Pomexpan, which markets the producers' potatoes. It is reported that Pomexpan handles 85 per cent of the potatoes grown by Quebec producers. The Quebec example provides an illustration of an industry's effort to centralize its marketing function to ensure that the farmer obtains the most from the marketplace. It appears to be working quite successfully to date.[45]

In Manitoba, only a small portion of the potato crop is sold as tablestock. The Manitoba industry is largely based on the processing sector. With respect to tablestock potatoes, the industry markets through a single-desk marketing agency. This system appears to work well within Manitoba.[46]

Varying degrees of dealer concentration can be found from one producing area to another. For instance, Maine has approximately 135 dealers. On the other hand, in 1978 the large potato producing state of Idaho had 59 dealers, who handled 60 per cent of the tablestock shipments.[47] In addition to dealer concentration, other jurisdictions also have varying levels of regulatory involvement in the marketing of local potatoes. Ontario attempts to enforce a minimum pricing system. Other jurisdictions have varying levels of regulatory involvement by industry organizations such as potato boards, and often regulation focuses on quality concerns.

The future of the Island industry within the North American market is dependent on a number of factors. Foremost among these factors are the supply situation within North America, the marketing activities of competitors, and the exchange rate.

The supply of potatoes in North America has a significant impact on the ability of any producing area, including Prince Edward Island, to market its product. Perhaps the best illustration of the impact of oversupply was the 1985-86 marketing year. Not only was the price low in that marketing year but the ability to find markets was severely hampered. In 1985-86, the Prince Edward Island industry marketed less than 6,000,000 cwt. in the North American market, compared to slightly more than 8,000,000 cwt. in 1984-85.[48] The Prince Edward Island Dealers Association's brief to the Commission aptly described with reference to the Quebec and Ontario markets what occurs in an over-supply year: "... when productions is high, preference in their marketplace is given to locally grown potatoes, P.E.I. winds up with a no-value surplus."[49]

In an oversupply year, markets are difficult to find and maintain. The supply in any given year is contingent upon acreages and yield, with the latter very much dependent on weather in all producing areas. The potential for oversupply in future years continues to be a distinct possibility and it is a situation over which Prince Edward Island has very little control in the existing market environment. Despite the fact that the province is the largest potato producer in Canada, it tends to be dwarfed by producing areas such as Idaho and Washington.

The activities of competitors can also have an impact on the position of the Island potato industry. Efforts to improve quality and marketing approaches can transform areas once thought of as uncompetitive into major forces with which to contend. In the past, the Island industry may have benefited from the disorganization and even disarray found in other producing areas. In the past decade, however, the industry in other producing areas such as New Brunswick, Ontario, Quebec and, more recently, Maine has become better organized. Areas such as Ontario and Maine are making efforts to improve quality and are making commitments to aggressive marketing. In Quebec, growers have been very successful in increasing market share through a combination of government support programs and aggressive marketing. The efforts of other producing provinces and states to become more organized may mean that the Island industry will face stiffer competition in the future and that traditional markets should not be taken for granted.

The American-Canadian exchange rate could have an impact on marketing to the United States although, as stated earlier, it may be a factor the importance of which is often overstated. Nevertheless, any major upward shift in the value of the Canadian dollar would likely affect the Island's position in the American market. Future trends in the exchange rate are largely unknown and will be subject to the performance of both the American and Canadian economies as well as world events.

In North America, the Island farmer faces a market which is monopolistic in nature. The bargaining position of the Island industry is rather weak, and is compounded both by the number of potato dealers and the practice of margin-shaving, which contributes to destructive price competition. The farmer is the major loser when the Island potato industry is competing against itself. The competition from other producing areas is, in itself, a major force with which to contend. Obviously, the Island industry can well do without the rather destructive practice of fiercely competing with itself within the North American market. As the marketing system of Island potatoes exists now, the Island potato industry is relegated to a vulnerable price-taking position and can easily fall prey to well-organized and powerful buyers at the market end who are ever watchful for a higher margin.

Off-Shore Export Market

Of all the markets served by the Island potato industry, the export market is wrapped in the most mystery. "Export market" refers to off-shore North America, the common definition used by the potato industry. The reasons for the mystery are not all that surprising, given that such business is conducted far from our shores and that the information gathered and disseminated to the Island potato industry, its marketing institutions, and the public at large is quite limited. The lack of information in itself is perhaps a cause for concern, especially since a significant proportion of Island potato production is sold on this market. No doubt the lack of information has done much to cloud this sector with suspicion, a sense of which was relayed to the Commission.

In the 1984-85 marketing year, off-shore exports accounted for 1,852,000 cwt., of which 30.6 per cent was tablestock and 69.4 per cent was seed.[50] Hence, seed accounted for the major share of the off-shore export market. In 1984-85 the off-shore export market, including tablestock and seed shipments, accounted for approximately 19 per cent of all marketable Prince Edward Island potatoes, which includes total production minus cullage.[51] Although the export market is not as large as the North American market, it does represent an important component of the industry's total sales.

The Island industry serves a number of countries in the export market. In 1984-85 the industry sold tablestock to 12 countries. Most of this volume went to Trinidad, Barbados, and Puerto Rico.[52] In the seed market, approximately 17 countries were serviced in 1984-85. Venezuela, Uruguay, Italy, Portugal, and Spain represented the five largest customers.[53] The three most common potato varieties sold on the seed export market were Kennebec, Red Pontiac and Sebago. The Kennebec is the most popular variety because it is very adaptable to climatic change.[54]

Prince Edward Island does not grow potatoes specifically for sale as seed. Although during the 1984 crop year 55,458 acres of the 72,000 acres grown on the Island were certified as seed, Island farmers do not necessarily intend to market their potatoes as seed.[55] The reasons for having such a high proportion of the acreage certified as seed are twofold. First, it helps to ensure quality and guards against disease because seed potatoes are subject to field inspections. Second, it provides the farmer with the option to market his potatoes as tablestock or seed. However, given that tablestock represents the best market opportunity, most farmers intend to sell their potatoes as tablestock. The Island potato farmer basically is a tablestock producer growing potatoes to a seed rating.[56]

Export marketing is conducted by five major sellers, all of whom are also active to some extent in the North American market. The five firms are as follows:[57]

1. Visser Produce (in cooperation with Carr Farms)
2. P.E.I. Produce
3. Island Shipping
4. H.B. Willis
5. Gulf Produce

These firms represent the Island industry's gateway to the export market. That so few sellers are active in the export market is probably due to the high risks involved; these are numerous and deserve consideration. The first risk exporters face is the ability to purchase the potatoes at the farmgate price they used in calculating their quote to the purchasing country. This is very much dependent on the time lag between making the quote, its acceptance, and the delivery date. The second risk involves assembling and loading the ships. Any complications in meeting phyto-sanitary inspections, technical problems in loading, or other complications, take time and cost money. The third risk is the possibility of damage to the potatoes at sea; the fourth is that the shipping time may take longer than anticipated, with delays costing the exporter money. One further risk is getting the cargo into port and unloaded in the receiving country. Differing standards of bureaucratic conduct and local custom come into play in many importing countries. Assuming the potatoes are satisfactorily delivered, the final major risk involved is obtaining payment. Payment for potato exports is affected by the financial stability of the importing customer, and is often affected by wild fluctuations in exchange rates.[58]

The risks mean that the exporter has to work on a much larger margin objective than potato dealers doing business in the domestic market. The margin objective of an exporter in the export market will vary widely according to the customer and country served. However, on a standard sale, this is in the range of $1.00 to $1.25 per cwt., compared to the 50¢ per cwt. margin objective for dealers in the North American market.[59] In the Commission's view, such a margin objective for exporters is not exorbitant given the associated risks.

Much has been made of the point that Island exporters compete against each other on export quotations and consequently depress the Island farmgate price. This point was made by several groups and individuals at the Commission's public hearings, including Bertram Webster of the Potato Producers' Association, who stated: "... sometimes I'm sure they [exporters] bid against each other and using our product and we get what's left sort of thing."[60] Before considering such an allegation, at least three factors must be examined.

The first is that the Island industry is not the only production area competing for export sales. New

Brunswick exporters are competitors. In addition, other countries, especially Holland, have a number of major firms and co-operatives competing for export business. Thus there is much competition on the export market beyond the competition between Island exporters. Moreover, Canada is not the major player on the potato export market. "... Canada only exports about one-fifth tonnage that Holland does, so that you usually find nobody from Canada would even mention international prices until the Dutch post their prices."[61]

A second factor to be examined is the on-going commercial relationships that have been established over many years. For instance, an Island exporter may have an agent in an export market, and because of satisfactory business relationships, may do business in that market year after year. Such a business relationship is important, but should not be necessarily overstated. Usually a bargaining process occurs between the exporter and importer until they arrive at a mutually acceptable price. Only then is a sale completed.

The third factor to be considered is the business practice of the importing country. Some countries will not accept a single quotation from another country. Island and other Canadian exporters may be forced to compete against each other to make the sale.

From an examination of these factors and an assessment of what has been said to the Commission, it is accepted that competition among Island exporters does occur. However, this competition may not be as intensive as sometimes stated. Island exporters co-operate by leaving certain markets to those who have traditionally done business there. During the Commission's public hearings, the General Manager of the Board stated the following:

> But we'll say this, I think there's a gentlemen's agreement amongst the exporters that for example, the case of Argentine, one or two particular companies service that market then the Venezuelan market would be left for another two or three [companies], whatever is the case. So that by business arrangements, the export companies have more or less had more success in one country than another.[62]

Such co-operation is to the benefit of the Island industry. At least it eliminates some destructive competition.

Co-operation among exporters for the benefit of the Island industry is commendable. This is not to say, however, that competition is non-existent between Island exporters. On occasion, competition between exporters can be quite intense, particularly when a new market opportunity presents itself. In such cases, exporters may compete to gain market shares and this can lead to destructive price competition.

What should also be of concern is that co-operation by exporters at the market end of the industry can be duplicated at the production end. An exporter with an order to fill may call upon other exporters and other dealers, as well as growers, to help assemble the shipment. The General Manager of the Board stated at the Commission's public hearings:

> The interesting part is they may be in competition in the tender but when the tender is

> let and if it comes to an Island exporter, there is, I believe, commendable co-operation between exporters here in supplying a given market.[63]

In interviews with the industry, the Commission has found that exporters assist each other in assembling potatoes for shipment. One who holds an export order will have other exporters as well as some other dealers, assemble potatoes from around the province for loading and shipment on given dates. The assemblers usually perform this function for a fee of 25¢ per cwt. For this to work effectively, each assembler pays a set price to farmers. However, this may break down if an assembler is unable to purchase potatoes at the seed price within a given assembling area. Hence, on occasion, two farmers may receive slightly different prices for seed potatoes to fill the same export order.

In the Commission's view, while it may be commendable that the exporters are able to fill their orders through collaboration, it, nonetheless, points to a very dangerous problem for the farmer attempting to market the product. If the exporters can collaborate to fill the order there is no reason to believe they do not collaborate to set prices at the minimum required to acquire the seed potatoes, usually at tablestock price plus a 1¢ to 1.5¢ premium. The existence of only five exporters and the collaboration between them means that the Island farmer is selling into a monopolistic market. This fact runs counter to notions of a "perfect" market where neither one nor a few buyers can exercise market control.

The monopolistic nature of the export market is further reinforced by the lack of available market information. At present, exporters are required to report to the Board the delivery price on each export order, the volume, the customer, and the destination. While such information is valuable, it does little to determine whether producers are receiving a reasonable share of the export order. Because many cost variables such as transportation on export shipments are unknown and difficult to determine, it is impossible to ensure that the producer's interest is being protected. This lack of information contributes to the mystery surrounding the export market. It also runs counter to the notion of a perfectly competitive market, which assumes perfect information.

Prince Edward Island is the largest Canadian exporter of seed potatoes, accounting for approximately 73 per cent of Canada's seed exports in 1984-85.[64] The other major Canadian competitor is New Brunswick. It is reported that Quebec would also like to be in the business, but they have not become a factor to date. The major competition for Island seed potatoes comes from other nations, in particular Holland, which is the major seed exporter in the world.

The Dutch industry revolves around a small number of private breeders and their commercial agents, most of whom are also involved in exporting on a substantial scale. As in Prince Edward Island, a relatively small number of exporters are involved in the business, and the three largest commonly account for approximately 60 per cent of the exports.[65]

The seed business in the Netherlands contrasts dramatically with that in North America, because of plant breeders' rights. Those who develop a variety in the Netherlands retain control over its multiplication as seed. The supply of each variety is thus restricted by the license holder to an amount appropriate to given market conditions. The license holder supplies seed to growers who must then sell their entire crop back to the license holder. The license holder, then, is the exclusive distributor of the variety in international markets and faces price competition only from substitute products. In addition to varieties grown under plant breeders' protection, the Dutch grow unprotected seed varieties.

Nonetheless, plant breeders' rights form the basis of a sophisticated seed export marketing system. Performing the missionary work for the seed exporters is the Netherlands Institute for Sales Promotion of Potatoes and Potato Products (NIVAP). Like Potatoes Canada, NIVAP grows test plots in target foreign markets. It provides technical assistance to those countries and generally promotes all Dutch seed exporters and their varieties. The sales organizations of the major seed exporters follow in their tracks, promoting their respective protected varieties. These firms are able to command premium prices for their seed because they develop varieties for the conditions in off-shore markets, and then have their grower-suppliers grow these protected and unprotected varieties to preferred size specifications. The combination of the NIVAP support, aggressive selling, and breeders' rights, has produced a formidable exporting system unparalleled in the world.[66]

The Island and Canadian export business pales somewhat in comparison to the Dutch system. The Island industry, of course, does not have the benefit of plant breeders' rights, nor does it grow seed to preferred size specifications, particularly small whole seed which some customers demand. The Commission has learned from federal government and industry officials that plant breeders' rights legislation will soon be coming to Canada. While many aspects of its applicability to the potato industry remain to be developed, it promises to be a positive development for the seed business on Prince Edward Island. In terms of growing small whole seed for export, the Commission has learned that it is an unlikely development in the short-term, due to the fact that Island producers are basically tablestock producers growing to a seed rating. As a result, they are unlikely to grow small whole seed because potatoes of this size are not currently marketable on the tablestock market, and the economic feasibility of growing small potatoes only for export does not exist.[67] Beyond these disadvantages relative to the Dutch industry, the Island and Canadian industry also suffers from lack of sales resources and organization.

Canadian, and in particular Island, seed exporters have relatively small sales organizations compared to their competitors in Holland. Sales are often conducted by one individual in each organization, who travels to importing countries in order to arrange sales, but who is not present long enough to perform follow-up on the performance of the seed purchased. Follow-up service helps to ensure customer satisfaction and prevent intrusion by competitors from other countries. Moreover, most Island exporters are not trained agronomists or specialists in seed potatoes, nor do they have staff so trained. Thus it is unlikely that they can assist importing customers with after-sale service, which the Dutch competitors can deliver.

Potatoes Canada was initially designed to bring together major Canadian exporters for market development purposes. Its membership comprises Agriculture Canada, External Affairs, the Prince Edward Island Department of Agriculture, the New Brunswick Department of Agriculture and Rural Development, the New Brunswick Potato Agency, the Board, the Prince Edward Island Potato Producers' Association, and the New Brunswick Seed Growers' Association. Financial support for the organization came from participating exporters, government departments, and provincial boards.[68]

Potatoes Canada was intended to accomplish a purpose similar to Holland's NIVAP. However, neither the organization itself nor its exporting members were able to develop a customer service staff to rival that of NIVAP. Potatoes Canada was also plagued by internal difficulties which almost led to its demise. These problems revolved around its operations, in particular the allocation of resources among its exporting members. As a result, a number of exporters withdrew from the organization and the Chief Executive Officer resigned, placing Potatoes Canada in limbo for much of the past year.

The Commission has learned that, since early October 1987, Potatoes Canada has been revived and all major participants, including exporters, governments, and provincial boards have come to an agreement which should secure the organizations's future operation. The Commission would like to state its satisfaction with this development. Potatoes Canada is a marketing instrument attempting to meet the challenges faced by the Canadian seed export business. It is important that the organization have the mandate and resources to be effective in developing new markets.

A renewed Potatoes Canada should also be mindful that it represents much more than a marketing tool for Canadian exporters; it also represents producers who have an obvious interest in the success of the organization. Producers will be supporting Potatoes Canada through levies, and have a right to expect both results and information about the organization and its activities. Ostensibly, this will be achieved through provincial boards and producer associations; however, such forms of reporting and accountability tend to be limited because only a small portion of producers are present and made aware of activities. Potatoes Canada should provide directly to producers information covering such areas as the progress of the organization, problems facing the seed sector, new seed developments, financial data, competition activities, farmgate seed prices from other countries, and much more. Low-cost reporting could be done through provincial board newsletters and would help give producers a stronger sense that the organization was being accountable. Moreover, it would engender stronger support for Potatoes Canada. The provincial government, the Producers' Association, and the Board should insist that Potatoes Canada directly report to producers.

One of the major obstacles facing the Island seed business is the non-tariff barriers posed by the European Economic Community. In all transactions involving seed, the product must meet the phyto-sanitary requirements of the importing country, and in the case of the European Economic Community, it appears phyto-sanitary requirements are being used to keep Canadian seed out of Europe. The rationale for restricting Canadian seed is that it is perceived to have the potential of transmitting ringrot into the European community.

It is acknowledged on the Island that the industry has experienced ringrot, ranging from occasional high levels to only a few reported cases. In the 1986 crop year, eight cases were cited.[69] Despite this, its presence is not really severe enough to warrant such harsh measures by the Europeans. Nonetheless, they do claim that they are concerned about ringrot and therefore the industry must take note. The motive behind the claim, however, may be based more on protecting markets for European seed growers than concerns about phyto-sanitary health.

This form of trade barrier poses difficult problems for the Island exporter. In the past, the Island has had the benefit of significant markets in Europe. In the marketing year 1984-85, four European countries (Greece, Italy, Portugal, and Spain) accounted for approximately 38 per cent of all off-shore shipments of seed potatoes.[70] Three of these countries have in recent years become part of the European Economic Community; hence the prospects for seed potatoes do not look promising within Europe. This has prompted one exporter, Mitch McLean of Island Shipping Ltd., to say:

> ... it's very doubtful that 40 percent of our market, which is Italy, Greece, Portugal and Spain will even be customers of Prince Edward Island next year due to political pressures from the E.E.C.,...[71]

The only remaining means for Prince Edward Island seed to enter this market at present is for the importing customer and country to receive a release, known as a derogation, from the European Economic Community allowing Island potatoes to enter the continent. This is often a time-consuming exercise which traditional customers of Island exporters may grow weary of year after year. In addition, they are no doubt under pressure from the European Economic Community countries to "buy European." While derogations offer the possibility of continued access to Europe, Mr. McLean's somewhat alarming statement with respect to prospects in Europe should not be taken lightly.

The influence of the European Economic Community's phyto-sanitary policies also reaches beyond Europe, having the effect of stunting Island and Canadian efforts to develop markets in North Africa.

> Countries such as Egypt, Tunisia, Algeria and Morocco are major importers of European seed potatoes. Much of the progeny of this seed is re-exported to Europe as early tablestock. Not a bad deal when a country has currency problems; not a bad deal for their growers who have a steady export market for their tablestock. Unfortunately, you [P.E.I.] are too far away to offer a similiar deal to those countries. Yet, those countries often make it clear that they are willing to buy your seed for tablestock production aimed at their domestic market or elsewhere in the region. But not if it threatens their two-way trade with Europe because of perceived disease problems in Canadian seed."[72]

The implications of the European Economic Community policies and their influence on other importing countries are serious. It could mean that markets for seed potatoes could be limited to the Western Hemisphere with reduced business in Europe and unstable markets such as Algeria, which would like to maintain a Canadian presence to keep the Europeans honest. Furthermore, in the long-term, even our major South American markets may be challenged. A number of South American countries are attempting to develop their own seed programs.[73] While they have not perhaps been totally successful to date, it should not be taken for granted that they will be unsuccessful in the future. There can be no doubt such programs by these countries are direct threats to Prince Edward Island seed exports. The Island and Canadian seed industry is under challenge in the off-shore markets.

During the course of its deliberations, the Commission has been told time and time again that the Island is one of the best seed-growing areas in the world. This is a view which is held not only by those in the Prince Edward Island industry, but by government officials and even competitors. Yet, despite the advantage of being an Island blessed with fertile soil, our seed business is in trouble. Perhaps the industry indulged in a false sense of security when hearing positive reports about its potato growing ability. No doubt much of what has occurred in the export markets has gone beyond the control of the Island industry. Nevertheless, it is becoming increasingly evident that the old formula of growing tablestock to seed specifications, finding orders and making arrangements to fill them, is not sufficient to be competitive in the off-shore market of the future.

Process Market

The potato processing sector represents an important and growing component of the Island potato industry. Its importance is reflected not only in the amount of potatoes used (approximately 15 per cent of Island potatoes produced), but also in the fact that it adds a measure of price stability to an industry notorious for its boom and bust price cycles. Moreover, potato processing is of major economic benefit to the province, providing much-needed employment and economic spin-offs well beyond the farmgate. For instance, Cavendish Farms represents the largest private sector employer in the province, employing approximately 500 people all year round. The company estimates that it contributes $26 million to the economy of Prince Edward Island in wages, salaries, and the purchase of supplies, including potatoes.[74]

Cavendish Farms, which produces french-fries and other processed potato products such as hash browns and prime cuts, is by far the largest player in the processing sector of the province. It contracts potatoes from approximately 75 growers, most of whom are located within 30 miles of the plant at New Annan.[75] Recently, it has been joined in the processing sector by the Prince Edward Island Potato Chip Co-Operative in Urbainville, which uses a comparatively smaller volume of potatoes for processing. In addition to supplying processing potatoes for plants in the province, Island growers also supply out-of-province processors such as Hostess in Nova Scotia, Humpty Dumpty and McCain in New Brunswick and, periodically, processors in Maine, Manitoba, and other locations. Despite these other outlets for potatoes, Cavendish Farms accounts for the bulk of processed potatoes grown in the province. Hence, much of the Commission's discussion on the processing sector will centre around Cavendish Farms and its process growers.

There are two major potato varieties used in the making of potato products at the Cavendish Farms plant: Shepody and Russett Burbank. Shepody is an early variety which is processed at the plant in the late summer and early fall, until the late-maturing Russett Burbank comes on stream. The Russett Burbank takes over from the Shepody in the fall and remains the mainstay of processing throughout the remainder of the year. The adoption in the past decade of the Russett Burbank for processing at the plant, is a major factor in the phenomenal increase in production of this variety in the 1980s.

Besides requiring specific varieties, french-fry processors prefer larger potatoes to yield a longer finished product. In addition, the processor prefers maximum solid content as measured by specific gravity. The combination of these factors means that the producer must tailor production practices to meet requirements. The colour of the potato when fried is also important and is dependent on sugar content, which can be kept at desirable levels by storing potatoes at temperatures above 46 - 47 degrees Fahrenheit. These factors differentiate the process growers from seed and tablestock growers. Normally, seed and tablestock growers will store their product at much colder temperatures. The seed grower also attempts to keep the potato size small and uniform. The differing requirements for the processing sector and the need for a secure supply of potatoes encourage the processor, Cavendish Farms, to contract with growers for raw product.[76]

Cavendish Farms grows approximately 20 per cent of its own requirements (generally about 2,000 acres). In the past, this in itself has been a source of some controversy; however, the firm justifies it because of the need for security of supply, particularly during the summer months. In the Commission's view, this is a reasonable contention. The remainder of Cavendish Farms potato requirements are met through contracting and some purchases on the open market. It is reported that the firm contracts approximately 80 per cent of its remaining requirements.

Interestingly, the contracting arrangement used on the Island between the processor and grower is not used in some other potato-producing areas. For instance, in Holland and the northwest United States, process growers rarely sell directly to processors. Rather, growers sell their potatoes in bulk to dealers who, in turn, direct the potatoes toward the highest value use. One portion of a bulk load of potatoes would be directed toward processing, another toward tablestock, another toward count pack, and so on. This enables producers to achieve the highest value for their potatoes. The key to operating such a system is highly centralized grading and packing facilities. Such a situation does not exist on the Island; hence, the approach would be difficult to apply within the province. However, if it could be developed, the need for contracting between the processor and grower would be removed and the business relationship would shift to one between processor and dealer.

The contract between Cavendish Farms and the process growers is negotiated between the management of Cavendish Farms and a bargaining unit of the Prince Edward Island Potato Processing Council, a committee of the Board.[77] This negotiation process is necessary, given the near monopoly Cavendish Farms has over processed potatoes in the province. The bargaining unit from the Processing Council usually consists of three to five people.[78] The negotiating units from Cavendish Farms and the Processing Council meet usually in April to negotiate the contract for the upcoming year. As the month of May approaches, pressure begins to mount to reach an agreement. The Processing

Council is under pressure to conclude a contract prior to planting. The processor, Cavendish Farms, is also under some pressure because it wants to have farmers under contract to meet its requirements for the following year. If contract negotiations fail, the processor cannot contract with growers until 15 August of that year, which makes it difficult for the processor to be sure of supply.[79] In the Commission's view, the current bargaining process appears to be balanced and both parties seem to have enough pressures upon them to reach an agreement.

The contract negotiated includes such items as price at, or between, different delivery dates; size specifications for potatoes on loads delivered; quality specifications for potatoes delivered; and an array of other stipulations.[80] Once the contract is negotiated, it is subject to a ratification vote by the process growers who had a contracts in the previous year. After ratification, Cavendish Farms is permitted to enter into individual contracts with growers for a certain volume at specified delivery dates.

At the Commission's public hearings, Cavendish Farms indicated a desire to have the Prince Edward Island Potato Processing Council ratify an agreement without going to the growers for a vote. It was argued that such a requirement slows the process and that the majority of those voting are not prone to the "give and take" of negotiations. While this argument has some merit, the Commission feels that the process should not be changed. First, it would be unfair to the process growers, as they would not have a say in an agreement which profoundly affects their livelihood. Second, it would be unfair to the negotiators for the Processing Council; inevitably, on some contracts, they could easily be accused of capitulating to the processor, a burden which may not be easily shaken within the potato community. It is doubtful many process growers on a negotiating team would want to carry total responsibility.

While the negotiating procedure in the processing sector appears to work well, it should not be presumed that improvements are unnecessary to help ensure the protection of producer interests. The Commission has identified two areas which warrant discussion. The first is the issue of grading practices at the plant in New Annan. The second surrounds the issue of open-market purchasing by the processor. These two items are not necessarily mutually exclusive.

During the course of its proceedings, the Commission has heard about inconsistency in the grading of potatoes delivered to the plant. The grading is conducted by employees of the company and is based on two samples drawn from each bulk load delivered to the plant. There is no processing grade per se, but Cavendish Farms uses a measure termed "raw product acceptance criteria." In addition, the United States Department of Agriculture Colour Standard Chart is used in grading. There are also standards for specific gravity, defects, hollow heart, rot, sunburn, off-type, frost, sprouts, and foreign varieties.[81] Most of the complaints about grading concern Cavendish Farms being more stringent on grading when open market prices are low, perhaps opening up the possibility for the company to reduce its contract purchases and allowing it to make more open-market purchases. The company claims that grading is both uniform and consistent, and some growers agree. If such is the case, there should be no opposition to stronger protections for process growers in respect to grading at the New Annan plant.

In the current contract between Cavendish Farms and growers, there is a mechanism for third party inspection in the event of a dispute between the processor and a grower. Clause 5 of the contract reads as follows:

> In the event of any differences or disputes as to quality, either party may call for Federal Government inspection at his expense. Such inspection will be made under the terms and conditions of this contract and the Federal Government inspector's decision shall be irrevocable and binding upon both parties. Designated Federal Government inspectors will be allowed to visit the plant periodically to verify grades. Upon arrival the inspector will contact the appropriate Company representative. This procedure is separate from a (mutually agreed upon) provincial government observer who periodically visits the plant to observe grading.[82]

While on the surface Clause 5 of the contract appears to be a reasonable resolution, it may in fact offer only limited protection to the farmer's interests. The Commission has been informed that this reinspection mechanism has only been used once in recent years. This may point to harmonious relationships between the processor and growers. On the other hand, members of the industry related to the Commission that farmers will not call for reinspection because it may jeopardize future contracts with the processor. This is a fear which need not exist. One assumes that grading practices are fair, and therefore processors can have no objection to mechanisms which ensure fairness; such mechanisms should be put in place.

The issue of open-market purchases by the processor is also is also a matter of concern. As mentioned earlier, Cavendish Farms purchases the bulk of its potato requirements under contract, but a portion of its requirements are purchased on the open market. The firm argues that this is necessary because, in the event of depressed prices, it could be placed in a non-competitive situation if it did not have the flexibility to buy some product on the open market. Processors in New Brunswick have the same flexibility, while those in Ontario do not. Running somewhat counter to this notion of flexibility is the argument put forth by the processor that specifications for processing potatoes are important. If the specifications for process potatoes are so crucial, the processor would not want to jeopardize the quality of the finished product by purchasing on the open market. However, given that the major competitors for the Island's processing sector are in New Brunswick, competing for the same market, it would appear that steps to limit open-market purchases would not be feasible unless McCain Foods had to abide by a similar arrangement. If Cavendish Farms had to purchase all its requirements at the contract price, and McCains did not, then the Island processor could be placed at a competitive disadvantage.

The Commission would be remiss if it did not emphasize the importance to the industry of Cavendish Farms. The company represents a major institution in the province, as both an employer and the centrepiece of food-processing. It has been a success story in a province all too familiar with its share of failures. Like all major successful institutions, Cavendish Farms has come under public scrutiny in the past, and will probably continue to do so.

Cavendish Farms has brought a measure of financial stability to the processing sector in the province, which is particularly important as it brings more stable prices to the potato industry as a whole, and in particular to those farmers who produce for the New Annan plant. No doubt this financial stability has been brought about by the capital backing of the Irving interests, accompanied by an aggressive marketing approach practiced by the firm itself. Since its arrival in the province in 1980, it has expanded production, and hence its requirements for raw product. In 1981 the amount of potatoes directed to local use for seed and processing was approximately 2.6 million cwt., compared to approximately 3.9 million cwt. in 1985.[83] This represents a 50 per cent increase which in large part must be attributed to processing. The increased use of potatoes has been achieved through Cavendish Farms' expansion of production and marketing. Its remarkable increase in marketing is reflected in the Island's international exports of frozen potato products. Between 1980 and 1984, international exports of frozen potato products from the Island increased from \$2.8 million to \$11.3 million.[84] Much of this increase was derived from exports of frozen potatoes to the United States which in 1980 were valued at \$1.6 million as compared to approximately \$7.8 million in 1980.[85] Thus there can be no doubt that the processing sector has experienced growth in the 1980s.

There appears to be ongoing confidence on the part of Cavendish Farms that the processing sector will continue to grow in the province. The recent establishment of the Prince Edward Island Potato Chip Co-operative seems to support this view. However, expansion of this sector may be predicated on a number of factors. First, it will rely on consumer trends for frozen product. Throughout the 1970s and early 1980s, there was a consumer trend towards increased use of frozen potato products at least in the United States market.[86] Whether this consumer trend continues throughout the remainder of the decade remains to be seen. If processing is to expand as it has in the past, Cavendish Farms and the Island industry in general will face associated problems, especially in terms of the availability of adequate storage facilities. This matter will be addressed in the next chapter.

The second factor and a major problem with the Island potato industry, but one which processing can help solve, is cullage. Between 1981 and 1985, the annual rate of cullage within the industry ranged between 18.8 per cent and 30.6 per cent of all potatoes produced. On average during this period, cullage accounted for approximately 24.6 per cent of potatoes produced in the province.[87] By comparison, New Brunswick recorded an annual average cullage and loss rate of 20.2 per cent between 1981 and 1985.[88] The American industry between 1979 and 1983 recorded an average annual cullage and loss rate of 8.1 per cent.[89] The much lower cullage rate in the United States is at least partially attributable to the existence of further processing (e.g., starch) for potatoes which otherwise would be considered culls.

At present there is very little market for culls, except as livestock feed, and disposal is required for much of it. Needless to say, cullage represents a tremendous drain on the economic viability of potato farms. Assuming annual cullage of 3.6 million cwt. per annum, at a farmgate value of $5.00 per cwt. cullage represents $18 million in lost receipts. If this rate of cullage could be halved, it would represent an additional $9 million in annual receipts for Island potato farmers.

In any event, it is of utmost importance that some use be made of these culls. Many people feel that some form of further processing offers the best potential for resolving the problem. At the Commission's public hearings, the Dealers' Association suggested a flake plant; in fact, the provincial government recently conducted a study of a dehydration plant. Others feel there may be alternative creative uses (e.g., medical). Clearly, the industry and government would be well-advised to address this problem. The first hurdle appears to have been cleared; both the industry and government acknowledge the problem exists. The new Food Technology Centre appears to be a useful vehicle to facilitate some action. It is now time for the industry and government to turn the problem into new opportunities. Alternative uses and markets for the Island's lower-quality potato stocks can help diversify further the Island potato industry, bringing with it a greater measure of stability as a use is found for most, if not all, of production.

Local (Elite) Seed Market

In past studies carried out on the potato industry, the Elite Seed sector usually was not considered a market sector, no doubt because this market constitutes only a small part of the Island's potato industry and all the marketing is done within the province. However, in the Commission's view, the Elite Seed sector is distinct and important enough to be considered a separate market sector.

The reasons are two-fold: first, the Elite Seed sector has been given the responsibility of providing quality and disease-free seed potatoes to commercial growers on the Island. Second, because this sector supplies farmers on Prince Edward Island, it is a market segment which has supply-and-demand dynamics of its own. In fact, it is one component of the Island industry already under a supply-management regime.

The Elite Seed sector consists of the grower-owned Elite Seed Farm at Fox Island, and approximately 50 Elite Seed growers who grew 1,310 acres in 1986.[90] While relatively small in terms of acreage and production, this segment of the potato industry represents a "vital and essential link" in enabling the industry to maintain and expand markets.[91]

The basic objective underlying the Elite Seed program is for the Island's industry to have available a constant available supply of quality disease-free seed. Basically, this is achieved through what is termed a "flush through" system of multiplication, whereby younger generation seed is introduced into the system each year and the older generation seed is each year withdrawn. The mechanics of this system are as follows:

Step	Responsible Group(s)
a) Tissue Culture	Elite Seed Farm
b) Screenhouse Production of Nucleus Generation	Elite Seed Farm
c) Pre-Elite Field Planting	Elite Seed Farm
d) Elite I Field Growing	Elite Seed Farm
e) Elite II Field Growing	Elite Seed Farm & Elite Seed Grower Back-up
f) Elite III Growing	Elite Seed Growers
g) Foundation Growing	Commercial Growers
h) Certified Seed Growing	Commercial Growers
i) Tablestock Growing	Comercial Growers

The basic stock seed is developed at the Elite Seed Farm. There it is multiplied until it reaches the Elite II stage. At this level, Elite growers are used to back-up the Elite Farm efforts. At the Elite III level, the growers are solely responsible for multiplication. After the Elite III level, the seed is passed on to commercial users. Each year that the seed is in commercial hands, it passes from foundation to certified and finally to tablestock status. Once the seed reaches tablestock status, it is withdrawn from the system. The lifespan of the seed multiplication cycle is approximately seven to eight years.[92]

As mentioned above, primary responsibility for growing Elite III Seed lies with the Elite Seed growers. They purchase the seed through the Board under a contract which specifies the price and the amount of acres to be grown.[93] The price of the seed to the Elite grower is below the cost of production at the Elite Seed Farm. All Elite III planting must be done by hand and in tuber units.

Because all purchases of Elite III Seed go through the Board, supply is controlled. As a result, the Elite Seed sector constitutes a form of supply management. Once the Elite grower harvests the crop, the seed can be sold to any Island grower. These sales can take place at any time during the marketing year; however, most transfers in ownership take place in April, just prior to planting. Because Elite Seed is under a supply-management system and is for use only within Prince Edward Island, the supply-and-demand dynamics of this sector may not bear any relationship to those found on the tablestock or seed export markets. As a result, a pricing formula, governing the price which Elite Seed growers can charge commercial growers for seed, is outlined in Clause 15 of the Elite Seed contract. In 1986, apparently in response to complaints from some commercial growers about overcharging by certain Elite growers, the Board and its Farm Committee introduced Clause 16 into the contract, which it claims had prior approval from the Executive of the Elite Seed Growers Association.[94] Clause 16 reads as follows:

> In the event that any grower shall accept payment for Elite III seed sold by him to a producer in excess of the price determined by the formula set out in Clause 15 herein, the excess received by the grower over the price etablished by the formula set out in paragraph 15 herein shall be forfeited to the P.E.I. Potato Marketing Board, and the Potato Marketing Board shall be entitled to recover such amount from the grower by suit in a court of competent jurisdiction, and the grower shall also pay all costs of the Board incurred in recovering such amount; including legal fees on a solicitor and

> client basis. The grower agrees to make available to the P.E.I. Potato Marketing Board at the request of the Potato Marketing Board all records of the grower relating to sales of Elite III seed by him to the producer. In addition, the Potato Marketing Board shall be at liberty to remove such grower from the Elite Seed Program, and shall also be at liberty to disqualify the grower from participation in any programs administered by the P.E.I. Potato Marketing Board for a period of five crop years immediately succeeding the crop year to which this contract relates, such programs including, without limitation, the Advance Payment for Crops Program.[95]

The introduction of this clause created some dissent among Elite growers, because they felt it was heavy-handed and their input into its inclusion in the contract had been limited. In fact, some growers refused to sign the contract, hence withdrawing from the Program. Others signed the contract but crossed out Clause 16. At the Commission's public hearings, the Elite Seed Growers indicated that it is difficult to resolve such problems because the contract is mailed out only a week or two prior to planting.[96] In the Commission's view, such problems can be avoided by introducing the contract in a scheduled manner which allows time to resolve difficulties which may arise from time to time.

The Elite Seed sector is crucial to the overall health of the Island's potato industry. It is a sector which owes its creation and maintenance to the Board, which began the Elite Seed Program in 1961. Certainly the Board deserves to be commended for its efforts over the years. This sector not only provides quality disease-free potatoes to the industry, but it also offers a niche for the smaller producers. Members of the industry related to the

Commission that larger production units are not appropriate for this sector. Despite this, there seems to be a trend toward fewer farm units. In its brief, the Elite Seed Growers indicated that in 1987 there will be 47 Elite growers, compared to the 74 of three or four years ago.[97]

> Our Association has experienced a considerable drop in grower numbers over the last few years. This may be due to the economics of potato production, resulting in some growers changing to larger operations in an attempt to increase their efficiency. Other growers have opted out due to reduced yields and lower profit margins because of stipulations in recent contracts on Elite seed. The export requirement for smaller seed sizes has resulted in local growers demanding smaller seed at the Elite level. Such requirements automatically dictate to the Elite grower earlier kill-down during the growing season to ensure acceptable size and lower disease levels.[98]

The fact that this sector has experienced decreased numbers in recent years is perhaps a reflection of general trends in the industry as a whole, as outlined in Chapter 2. However, this sector is unique for the following reasons. First, because of the Elite Seed growers' position in the industry, the crop requires more attention and care, thus smaller production units are required. Second, each Elite grower is permitted to multiply one variety only. This is to prevent disease from entering any more than one variety, should a disease such as ringrot be contracted. Third, it is important to have varieties, particularly popular ones, multiplied by a number of Elite growers to ensure that a supply is available in the event of disease being contracted in the crops of one or two Elite producers. In the Elite Seed sector, it is of utmost importance that production be kept at a healthy level. The fact that a number of growers have withdrawn from production in recent years should be cause for concern.

In concluding this section, the Commission would like to reiterate the importance of the Elite Seed sector, and that its continued maintenance and health is of utmost importance to the industry. No doubt the Board has done much to nurture and develop this sector, an achievement for which it deserves much credit. Nonetheless, there are some concerns which should be addressed, such as the administration of the Elite Seed contract.

Conclusions and Recommendations

An examination of the market system suggests that it is now operating as intended. All participants in the market chain attempt to maximize their own profits by performing their own function, whether it be that of producer, processor, dealer, or retailer. In a perfectly competitive market environment, where there are numerous buyers and sellers, perfect information is available and market power is evenly distributed; the system ought to work to the fair advantage of all, including producers. Unfortunately, the perfect market is no more perfect than the world in which it exists. The potato market is monopolistic in nature, adequate information is not available to all participants, some participants are better organized than others, and market power is not evenly distributed.

An analysis of the North American, off-shore export, and processing markets demonstrates the monopolistic nature of the Island potato market. This is reflected in the fact that there are a few major Island dealers handling a major proportion of the movement of potatoes out of Prince Edward Island. In several market destinations, the bulk of Island potatoes flows through one major buyer. The case of MacKay-Hughes of Toronto is a poignant example. Cavendish Farms, the major processor in the processing sector, is in a near-monopoly position within Prince Edward Island, and this has been addressed within the industry through negotiations between Cavendish Farms and the Processing Council. In a general sense, the existing market environment places the producer in a vulnerable position.

The producers' vulnerability is increased by the lack of producer organization in the marketplace. Farmers must access the market through one of 83 dealers, all competing for market shares. The usual first victim of such market organization is the producer price for potatoes, the reason for which was aptly explained in the brief presented by Norman Clarey of Clarey Farms to the Commission's public hearings.

> But the reality is that growers must go through dealers and brokers to reach the marketplace. Neither of those two distribution agents have any built in incentive to try to get a better price for the grower. The motivation is to move volume and play the market.[99]

The fact that such distribution agents as dealers have no "built in incentive" is a sad commentary on the marketing system, and is not to the advantage of the producer. Moreover, it is unlikely the situation will change as lack of price incentives for distribution agents is common practice throughout the produce trade of North America, of which the Island potato industry is only one small component.

The fact that producer interests are not protected as well as they ought to be within the marketing chain is not necessarily a condemnation of the marketing system. No open market system claims to protect the interests of any one group. It is up to participants in the market system to protect their own interests. Obviously other groups, such as off-Island wholesalers and retailers, have been able to organize themselves in such a manner as to protect their interests. The marketing system cannot be faulted if Island producers and the industry have not organized themselves in order to protect their interests and adjust to the realities of the marketplace outside Prince Edward Island.

As has been explained in this chapter, prices may be depressed because of competition among Island dealers when making off-Island sales, particularly in the North American market. Basically, this is a result of margin-shaving among some Island dealers who do not have an overhead commitment to their dealer operation. In other words, if an Island dealer does not rely on the dealer margin either for his livelihood or the survival of his dealer operation, then it is possible that he will sacrifice all or a portion of the dealer margin to make an off-Island sale. This places downward pressure on producer prices, as other dealers with overhead commitments must lower prices to make a sale and maintain their margins. Even though there is a degree of concentration in terms of volume movement among Island dealers - with 20 dealers moving approximately 80 per cent of the potatoes - it in no way matches the market concentration found outside the province; there is no market power on the Island to match market power outside the province.

The solution to lack of organization and cohesion in the Island industry's marketing approach rests largely with the dealers themselves. It is this group which has the expertise and ability to market successfully. Producers have a large stake in ensuring that committed and competent dealers are moving the product onto the market. In the Commission's view, a number of Island dealers are in fact committed, competent, and prepared to perform an important function for Island producers. In the past, these people have taken criticism, particularly in low price years, but they lacked the market power to effect any change in market conditions. In fact, they are as much victims of the Island industry's approach to marketing as are producers themselves. Island dealers must be given the opportunity to perform a much better job in the marketplace.

In the Commission's view, the best means of effecting a more cohesive and organized approach to the marketplace is for the industry and producers to ensure that dealers have a strong commitment to their dealer operations and the industry as a whole. Producers have a major stake both in seeing that dealers operate efficiently and that strong marketing organizations are in place to ensure that they do.

Commitment to being a potato dealer can be measured in a number of ways. One major indicator is reflected in the amount of money dealers are willing to pay to obtain a dealers' license. The current fee of $400 is not sufficient to indicate a strong commitment. In the Commission's view, the fee should be raised considerably. This would indicate to the Board and producers that dealer operators are willing to make an overhead commitment and are serious about marketing potatoes.

Another measure of commitment is demonstration by the dealer that he has the facilities to conduct effectively the marketing of potatoes. This could include an office and equipment, the staff required to make sales and maintain records, and perhaps grading and packaging facilities. In the Commission's view, dealers should have to demonstrate that they have these facilities prior to being granted a dealers' license.

Producers and the industry also have an interest in seeing that dealers have the financial resources to market successfully, and at the same time maintain stable enterprises. This can be measured best by having dealers post a bond prior to receiving an annual dealers' license, in order to indicate the financial solvency of dealer enterprises and protect producers from losses incurred by potential dealer bankruptcy. The bond amount would be established by the new commodity board.

In addition, producers and the industry should be concerned to see that dealers are operating as dealers in a conventional manner; that is, dealers ought to demonstrate that they buy a significant portion of the product from other producers, and in turn resell the product. Such a condition accomplishes a number of objectives. First, it ensures that all dealers must rely on the dealer operation for their livelihood, thus helping to avoid margin-shaving. Second, it helps ensure that all producers have access to the market by making it incumbent upon dealers to move the product of other producers. This dealer condition sould be approached gradually with a predetermined objective in mind. The new commodity board may wish to determine what percentage should be purchased from other farmers; however, the Commission suggests 50 per cent as a reasonable objective because it demonstrates that dealers are operating in a conventional manner for the majority of their business. Such a requirement will help establish a more level playing field for all dealers, in that they must rely to a great extent on their dealer operation to cover their overhead. This condition would be enforced by the Board through annual audits of dealer records.

Having established some new conditions for Island dealers, the industry and producers must also take steps to ensure that dealers can cover their overhead costs. While these costs will vary, it is the view of the Commission that a dealer operation requires a minimum annual gross revenue of $50,000, based on salary and wage expenses of $30,000 and office overhead costs of $20,000. While a $50,000 operation would be very small-scale, one of this size could function effectively in the marketplace.

Presuming a dealer margin of 50¢ per cwt., such an operation would have to move a minimum of 100,000 cwt. of potatoes to cover overhead costs. The Commission feels that a minimum volume movement of 100,000 cwt. for each dealer should become a condition for renewal of dealers' licenses. Of course some flexibility would have to be incorporated to protect a dealer against a poor year, when volume movements are low and a particular dealer may have fallen below the 100,000 cwt. limit. Thus, it is preferable that dealers demonstrate an ability to move a minimum of 100,000 cwt. in at least two of the three most recent years. Such a condition would be fair to both existing dealers and new entrants attempting to establish new dealer operations.

As a final point on the subject of dealers, the Commission feels that it is fundamentally important for dealer operations to be fully aware of all aspects of potato marketing - it is a business which changes over time. Further, as new dealers and employees enter the business from time to time, it is important for the industry and producers that dealers and their employees have an up-to-date knowledge of the marketplace as well as their obligations to producers and consumers. This could be addressed by having the Board sponsor annual workshops for dealers, which would include presentations by retail, wholesale, and brokerage firms, as well as marketing experts and government officials.

At the end of this chapter, the Commission will recommend that a combination of increased dealer fees, proof of adequate facilities and staff, the posting of a bond, movement of potatoes produced outside the dealer operation, and a minimum volume movement become part of the conditions of obtaining a dealers' license. Such conditions would strengthen the Island marketing system by giving all dealers the ability to become more effective marketers, while obtaining the best possible returns to the Island producer and encouraging a more efficient marketing system. It is obvious, however, that such conditions might lead to a reduced number of Island dealers, leaving producers feeling vulnerable. However, those dealers that remain should be both more effective in the marketplace and more easily supervised by the Board. To augment this, the Commission recommends the formation of a Producer Company, which would operate as a licensed dealer.

A Producer Company would be incorporated under the laws of Prince Edward Island and would in many ways operate similarly to other dealer operations in the province. However, in other ways it would be distinct.

Shares would be available to any producer who wished to become part of the Company, the cost of which would be established by the Company's Board of Directors. A formula would have to be worked out to establish how many shares any one producer could purchase. For instance, a producer could make purchases on the basis of one share for each acre produced. This would prevent any one individual from buying up a major portion of shares in the Company, and keep the voting power distributed among as many as possible shareholders. Since each shareholder may not have an equal number of shares, every effort must be made to prevent any one producer from having effective control of the Company. Therefore, 50.1 per cent of the shares should be held by the Prince Edward Island Potato Producers' Association, so that producers maintain control and producer interest is protected.

The Producer Company must operate at arm's length from the Board. If it was to play a role in the Company's establishment and operation, the Board would be vulnerable to accusations of conflict of interest by other private dealers. In the Commission's view, the most appropriate facilitator for the formation of such a Company would be the Potato Producers' Association; the establishment of such a Company under the guidance and sponsorship of the Association would give to the organization a new role. The provincial government should if necessary provide the Association with the financial resources to take the 50.1 per cent equity interest in the Company.

The Commission would like to stress that the Producer Company must be a profit-oriented enterprise and must be given the flexibility to be aggressive. The key to its success will be management. Those involved in establishing such a Company would be well advised to engage a competent manager and be willing to pay an appropriate salary. The Company may wish to include performance incentives in the salary packages of management.

If such a Company could market a significant part of the Island product, a number of desirable objectives would be achieved: increased returns to the grower; provision of a window on the marketplace for the producer segment of the industry; the creation of an honest broker, eliminating the suspicions many have regarding the existing market system; the granting of some market power to the production sector of the industry; potential provision of equal opportunity for access to the market for members; the offering of an alternative for those who object to the present market system; and the elimination of the need for so many small producer-dealers. With enough support, the Producer Company could be a dominant player in the Island industry. For further information, see a background paper to this Report, Feasibility of a Producers Company, by HP Consultants, July 1987.

Such grower organizations are not without precedent. Pomexpan operates in Quebec with great success and markets approximately 85 per cent of Quebec's potato production. Although founded more on co-operative principles, the Sunkist organization for oranges is very similar. The grower-controlled Sunkist organization is probably the most successful of its kind in the world.

Both the reduction of dealer numbers and the creation of a Producer Company should simplify and make more effective the enforcement of Board Orders. The existence of a Producer Company as an arm of the Producers' Association should keep producers better informed about market conditions and market practices, and better able to defend producer interests at the Board level.

Finally, the Island potato industry should attempt to exert more control over distribution within some major markets. This could be accomplished in one of two ways: establishing an Island industry-owned dealer agent in major market destinations, or franchising potato marketing rights in major market destinations to an existing dealer or broker.

The establishment of an industry-owned dealing agent would involve industry investment in human resources, office space, and repacking facilities in selected market destinations. The agent would be responsible for finding customers, handling claims, repacking, merchandising, collecting payments, and operating on a specified margin. Agents would act like other dealers in that market, except they would be controlled by the Island industry.

In order to ensure the success of the dealer agent, the Island industry would have to commit itself to patronizing the agent in the market destination. This could be accomplished by a Board Order requiring all dealers to sell through the agent. Moving to industry-owned dealer agents would afford the industry more control within the marketing chain. However, such an approach has associated costs and risks. Establishing an effective dealer agent would require a significant industry investment. As well, there is a risk associated with drastically changing distribution agents within a market. The producer-owned dealer agent would be effectively starting anew, which could result in a loss of market shares. Franchising could provide a less costly and less risky alternative.

Franchising would involve signing exclusive contracts with individual dealers or brokers in particular market destinations. In other words, the Island industry would provide a dealer or broker in a specific geographic area - such as Montreal, Toronto, or Boston - with exclusive marketing rights for Island potatoes within that area.

It would be necessary for the franchisee to agree to handle only Island potatoes. The Island industry in turn would grant the off-Island dealer or broker exclusive marketing rights. This could be accomplished through a Board Order requiring all Island dealers to sell to the franchisees.

In conjunction with the Board, the franchisee would be responsible for promoting Island potatoes, finding customers, relaying orders to Island dealers, collecting payments from buyers, operating on a specific margin, handling claims, and carrying out proper merchandising. To carry out many of these functions, it would be preferable to franchise a dealer as opposed to a broker operation. As well, the franchisee would provide Island dealers who have had a share in that market with continued access in proportion to their traditional share.

Movement toward a franchise system would accomplish a number of positive goals for the industry. First, it would provide a measure of control over more of the marketing chain. Second, the Island industry could ensure the franchisee was operating fairly by performing periodic financial audits and by requiring other necessary information. This would do much to create trust within the marketing system. Third, the Island industry would be able to undertake more complete marketing strategies because it would have some control over distribution agents. Fourth, by requiring the franchisee to handle Island produce exclusively, the industry would remove the possibility of the franchisee playing off Island producers against their counterparts in other provinces. Likewise, steps could be taken to guard against Island producers and dealers being played off against each other. Fifth, the franchise system would enable the Island industry to develop pricing strategies based on market information from the franchisee.

The major argument against adopting a franchise system is that it would create effective dealer monopolies in some markets. However, as demonstrated in this chapter, the market is already monopolistic in nature. By moving to a franchise system, the Island industry could use this situation to its advantage. A further argument against a franchise system is that it would inhibit the ability of Island dealers to manoeuver within the marketplace. However, the number of major buyers in many markets is already limited. Furthermore, the franchise system would not apply to all markets, and provisions could be made within the franchise contract to ensure that Island dealers have an opportunity to maintain their traditional market shares.

The Commission is of the view that franchise contracts could be developed which would be of mutual benefit to both the Island industry as franchiser and the off-Island dealer as franchisee. Contracts could be in effect for a period of at least two years, after which they would be renegotiated. The Commission recommends that the industry examine moving towards a franchise system in selected market destinations.

Franchising would be further reinforced if the Board obtained and registered a trademark for Island potatoes. Such a trademark would enable the new commodity board to control the use of product carrying the label. This could be of particular importance for Island product beyond provincial boundaries. In return for the trademark, the Board could register and place certain conditions on off-Island dealers who are involved in packing and re-packing Island potatoes.

The major competing alternative to the more stringent dealer-licensing conditions and the Producer Company as outlined above, is single-desk selling. Such a system would involve differentiation of product by pool, and each producer would receive an average monthly pool price for product sold. By taking dealer orders and filling them, the Board would act as an intermediary between the farmer and dealer. Under a single-desk arrangement, producers would be guaranteed equal access to the market; however, they would be compelled to move product at the request of the Board.

In 1953, the Island potato industry had a single-desk selling system for one year. It was subsequently voted out of existence by a very slight margin. Interestingly, a review of the history of that period indicates that much of the criticism of single-desk selling did not focus on the question of whether or not the system would work. Rather, much of the debate centred on concerns over compulsion and limits to producer freedom. As well, potato prices dipped after single-desk selling was introduced - perhaps in response to an oversupply situation - and blame for this was conveniently laid at the feet of the agency.

Single-desk selling is certainly a concept which could be applied to the Island potato industry. The Manitoba potato industry operates under a single-desk system, which has been in place for a number of years. However, it appears the Island industry is unprepared to adopt such a system. This point has been made to the Commission on several occasions. In its brief to the Commission, the Federation of Agriculture best expressed the mood of the industry on single-desk selling: "In the past, we have tried one-desk selling. Many producers who were in business at that time still talk about how disasterous that type of selling was to the industry."[100]

While the "disaster" was the "political" turmoil and controversy one-desk selling created and not its failure to market successfully, the Commission recognizes that such a plan is likely unacceptable to the majority of the industry. The adoption of this system would certainly lead to further division and turmoil. As a result, the Commission does not recommend a single-desk selling system for the industry.

Without a more comprehensive national marketing scheme, the Commission is of the view that a combination of stringent dealer licensing conditions, a Producer Company, and franchising of selected market destinations represents the best method for getting the Island potato marketing house in order. Moreover, it would provide those who market Island potatoes with an opportunity to counterbalance the market power held by dealer and retailer organizations outside the province. In addition, it should help provide increased returns to producers and bring more integrity to the Island's marketing approach. In reality, it is perhaps all the industry and producers can hope to achieve within the jurisdictional competence of Prince Edward Island.

The future of the seed export market should be a matter of concern to the industry. Market growth has levelled off, competition is increasing, and political issues in many countries endanger market access. The market for seed in some production areas is changing; for instance, the demand for whole round seed is greater than the Island industry can supply. The industry should consider the possibility that some potatoes could be grown specifically for the export seed market, perhaps with the protection of plant breeders' rights.

The mystery surrounding the export market should be removed. The lack of information about the market should be of concern to the industry's marketing institutions. Without adequate information, no producer commodity board can assure growers that their interests are being protected. Under the existing Temporary Plan, the only information received or required by the Board is the price paid by the buyer in the market of destination and information with respect to volumes. No commodity board pretending to act in the interests of the producer is able on the basis of such information to assure its producers that their interests are protected, and this results in continuing suspicion, acrimony, and turmoil. This situation must be corrected.

The recent resurrection of Potatoes Canada is a positive development. It is fundamentally important that the organization have the resources and mandate to be an effective market development tool with respect to seed exports. Moreover, it is important that all interests, exporters, governments, provincial boards, and producer organizations stand behind the organization. Membership in Potatoes Canada should be a condition of export licensing of Island exporters. A similiar condition should be sought for the New Brunswick industry. A revamped Potatoes Canada in itself may not be sufficient to maintain and expand the Island's position in the seed export market. There is also a need for a strong aggressive marketing organization to complement their efforts. The major competition in seed export comes from the Dutch, who have large marketing firms with enough financial resources to be aggressive marketers. To meet this competition, Island exporters, government, and the Board ought to consider the formation of an Island export consortium.

Such a consortium would consist of all five Island exporters. The nature of the consortium and the sharing of markets would be negotiated by the exporters. The province could consider supporting the consortium with funding for field workers, who would be responsible for servicing the consortium's markets and seeking new markets. The Board could support the consortium by agreeing to issue only one export license, which would offer protection from anti-combines action. In exchange, the Board would demand full disclosure of market information and export contracts.

The creation of a consortium could provide the province's producers with a strong organization on the export market, and bring together the resources required to be competitive with the Dutch. It would help ensure field workers are in the market aggressively selling Island product, as well as help remove any unnecessary competition between exporters. Moreover, a consortium would provide the Island industry with a unified approach to the marketplace.

The Commission recognizes that a consortium will not be easily negotiated. It will require both goodwill and trust on the part of exporters, government, and the Board. The process of putting together a formal consortium should be initiated by the provincial government, with the Board limiting its involvement to supplying an export license in exchange for full disclosure. The Board should not be involved in detailed discussions regarding the make-up of the consortium, since it will be responsible for regulating the organization in the future, and hence would not want to participate in discussions that would compromise that regulatory function. Nonetheless, the Board would have to give final approval to the formation of a consortium.

The processing market is very important to the Island potato industry and if possible ought to be protected and expanded. It cannot be denied that Cavendish Farms has been a highly successful, competitive, and aggressive organization. Its relationship with the process growers appears to have improved over the years. The availability of such a market for Island growers provides a stabilizing influence on the market as a whole by providing an alternative use for the product. Expansion of this sector lessens the industry's dependence on outside market forces. It is also a major source of employment and performs a much-needed "value-added" service, which should be an objective of the Island potato industry and the Island economy. Moreover, the processing sector potentially could provide a use for the industry's cullage.

While the Commission has heard expressions of concern about this market, it concludes that the market works satisfactorily and needs little change. Changes should be made only to strengthen the supervision of grading practices by Cavendish Farms. This can be achieved by giving to the new commodity board the right to monitor inspections at the plant, and to call periodically for third-party inspections. This condition should be made part of the contract between Cavendish Farms and the Processing Council.

The Commission takes the view that it would be preferable for open market purchases of processing potatoes to be virtually eliminated. This could be achieved by requiring the processor to buy all uncontracted potatoes at a minimum of the contract price. No doubt this would help eliminate suspicions that some producers harbour regarding the processors' grading practices. However, it is impractical to impose such a condition on Cavendish Farms unless a similar condition is also imposed on its major New Brunswick competitor. If Cavendish Farms alone was forced to purchase all of its uncontracted potatoes at the contract price, it would most likely be placed at a competitive disadvantage.

The continued health of the Elite Seed Program is of vital importance to the industry. Almost every production area has a similar program; if the Island industry is to maintain its reputation for quality, the Elite Seed program must continue to be the best it possibly can be. More will be said on this subject in the next chapter. In this chapter, recommendations concerning the Elite Seed Farm are limited to the relationships between the Elite Seed growers and the Board.

RECOMMENDATIONS

The Commission makes the following recommendations regarding existing marketing practices:

Conditions on Dealers' Licenses

1. That the annual fee for a dealers' license be raised significantly from the current $400 fee (e.g., 2,500 per annum).

2. That all those being awarded dealers' licenses provide an annual bond in an amount determined by the commodity board.

3. That a condition on dealers' license applicants be the ability to demonstrate the necessary staff, office and packaging facilities to effectively carry out their function.

4. That each licensed dealer be required to move annually a minimum of 100,000 cwt. as a condition of the license. To receive a license the next year, each dealer must demonstrate a volume movement of at least 100,000 cwt. in two of the previous three years.

5. That each licensed dealer be required to purchase a significant portion of product grown by other farmers (e.g., 50 per cent). This requirement should be phased in over a period of 3-5 years.

6. That the new Commodity Board provide an annual workshop for Island dealer operations. It should be mandatory that at least one representative from each dealer operation attend such a course.

7. That all those being granted dealers' licenses agree to full disclosure of marketing information to the commodity board - to meet the dealers' license qualifications of the *Canadian Agricultural Products Standards Act* (1955) - and to follow all orders and regulations as established by the commodity board. These conditions are currently attached to the dealers' licenses.

Producer Company

8. That a Producer Company be formed to operate in the domestic market. Such a company should be facilitated under the sponsorship and guidance of the Potato Producers' Association.

Market Franchising

9. That the industry examine market franchising for specific market destinations.

Trademark

10. That the new commodity board register a trademark for Island potatoes.

Export Market

11. That all those granted export licenses agree to full disclosure to the new commodity board of all export contracts. All information forwarded to the new commodity board should be reported in masked form to protect the business of individual exporters.

12. That on a periodic basis exporters and the new commodity board establish a minimum guide price for seed potatoes. This can be accomplished through periodic meetings between the new commodity board and exporters.

13. That the new commodity board make every effort to obtain third-party information on the export market, similar to that published in Holland.

14. That the Island industry make efforts to establish a specialized seed sector providing small whole seed. The advent of plant breeders' rights would help facilitate the development of such a sector.

15. That membership in Potatoes Canada be a mandatory condition of an export dealers' license. A reciprocal condition should be expected from other participating provinces.

16. That the provincial government, the new commodity board, and Island exporters examine the formation of an export consortium.

Processing Market

17. That the new commodity board regularly monitor inspection and be permitted to request third-party inspection of processing potatoes at the Cavendish Farms plant.

18. That the new commodity board, provincial government, and the industry actively seek alternative uses and markets for the Island's lower-quality (cull) potatoes.

Elite Seed Sector

19. That contracts with Elite Seed growers be introduced in a scheduled manner each year. Sufficient time should be given for consultations between the Board and the Elite Seed Growers Association; for formulation and distribute of the contract to Elite growers; for Elite growers to consider the contract and make plans for the next crop year; and for the contract to be returned to the new commodity board for finalization of plans for the next crop year.

FOOTNOTES

1. Allison Ramsay, Prince Edward Island Department of Agriculture.

2. New Brunswick Department of Agriculture and Rural Development, Potato Production Division, List of Potato Varieties in Canada ([Fredericton]: New Brunswick Department of Agriculture and Rural Development, 1985), p. 55.

3. Ibid., p. 36.

4. Ibid., p. 58.

5. Ibid., p. 57.

6. Ibid., p. 60.

7. Ibid., p. 53.

8. Agriculture Canada, Marketing and Economics Branch, Potato Market Review 1984-85 = Revue de marche des pommes de terre 1984-1985 (Ottawa: Agriculture Canada, 1985), p. 60. For further information, see Appendix G.

9. Ibid. For further information, see Appendix H.

10. Count Potato Association, Royal Commission on the Potato Industry, Public Hearings, Vol. I, 29 January 1987 (Charlottetown: Royal Commission on the Potato Industry, 1987), p. 88.

11. Information obtained from the Prince Edward Island Potato Marketing Board and submitted to the Commission by the Count Potato Association, 29 January 1987. For further information, see Appendix J.

12. Potato Market Review 1984-85, p. 60. For further information, see Appendix I.

13. Prince Edward Island Department of Agriculture, Agricultural Statistics 1985 (Charlottetown: Department of Agriculture, 1986), p. 56. For further information, see Appendix N.

14. Bank of Canada, Bank of Canada Review (January, 1987), p. 131. For further information, see Appendix N.

15. Roygold Marketing Systems Ltd., Market Analysis of the P.E.I. Potato Industry, prepared for the Royal Commission on the P.E.I. Potato Industry (Ottawa: Roygold Marketing Systems Ltd., 1987), p. 40.

16. Mitch McLean, Prince Edward Island Potato Dealers' Association, Royal Commission on the Potato Industry, Public Hearings, Vol. II, 12 February 1987, p. 360.

17. Roygold Marketing Systems Ltd., p. 58.

18. Ibid., p. 67.

19. Information provided to the Commission by the Atlantic Provinces Transportation Commission.

20. Prince Edward Island Potato Dealers Association, *Royal Commission on the Potato Industry, Public Hearings*, Vol. II, 12 February 1987), p. 352.

21. Roygold Marketing Systems Ltd., p. 40.

22. Osler Inc., *Gemini Food Corporation: [Prospectus]* ([S.l.: Osler Inc.], 1986), pp. 11-12.

23. *Ibid*., p. 4.

24. *Ibid*.

25. *Ibid*.

26. Information submitted to the Commission by the Prince Edward Island Potato Marketing Board, 3 April 1987.

27. Ontario Food Council, *An Inquiry Into Matters Relating to the Sale and Distribution of Fruits and Vegetables in the Province of Ontario* (Toronto: Department of Agriculture and Food, 1969), p. 13.

28. *Ibid*.

29. Prince Edward Island Federation of Agriculture, *Royal Commission on the Potato Industry, Public Hearings*, Vol. I, 31 January 1987, p. 191.

30. Prince Edward Island Potato Marketing Board, *Ibid*., Vol. II, 27 January 1987, p. 409.

31. Letter to the Commission from Christie LaPlante, Fresh Products Section, Dairy, Fruit and Vegetable Division, Agriculture Canada, 2 February 1987.

32. Information submitted to the Commission by the Prince Edward Island Potato Marketing Board, 3 April 1987.

33. Produce Reporter Company, Blue Book Credit and Marketing Guide, April 1986 (Wheaton, IL: Produce Reporter Company, 1986), p. 512.

34. Information submitted to the Commission by the Prince Edward Island Potato Marketing Board, 3 April 1987.

35. Blue Book, p. 701.

36. Information submitted to the Commission by the Prince Edward Island Potato Marketing Board, 3 April 1987.

37. Ibid.

38. Roygold Marketing Systems Ltd., p. 62.

39. Information submitted to the Commission by the Prince Edward Island Potato Marketing Board, 3 April 1987.

40. National Farmers Union, Royal Commission on the Potato Industry, Public Hearings, Vol. I, 4 February 1987, p. 286.

41. Linkletter Farms, Ibid., 24 January 1987, pp. 245-246.

42. Prince Edward Island Potato Marketing Board, _Ibid._, Vol. II, 27 January 1987, p. 411.

43. Roygold Marketing Systems Ltd., p. 137.

44. _Ibid._, pp. 155-165.

45. _Ibid._, pp. 139-140.

46. _Ibid._, pp. 144-145.

47. _Ibid._, p. 157.

48. _Potato Market Review 1984-85_, p. 60.

49. Prince Edward Island Potato Dealers Association, _Royal Commission on the Potato Industry, Public Hearings_, Vol. II, 12 February 1987, p. 354.

50. _Potato Market Review 1984-85_, p. 60. For further information, see Appendices K and L.

51. _Ibid._

52. _Ibid._, p. 62. For further information, see Appendix K.

53. _Ibid._ For further information, see Appendix L.

54. _Ibid._, p. 58.

55. Prince Edward Island Department of Agriculture, _Prince Edward Island Statistical Summary 1985_ (Charlottetown: Department of Agriculture, 1985), Tables 1, 8.

56. Interview with Mitch McLean, conducted by the Commissioner and Assistant to the Commissioner, Charlottetown, 14 May 1987.

57. Roygold Marketing Systems Ltd., p. 64.

58. Confidential interviews with Prince Edward Island exporters, conducted by the Commission and the Assistant to the Commissioner, province-wide, March and May 1987.

59. Ibid.

60. Prince Edwad Island Potato Producers' Association, Royal Commission on the Potato Industry, Public Hearings, Vol. II, 7 February 1987, p. 506.

61. Mitch McLean, p. 367.

62. Don Anderson, Prince Edward Island Potato Marketing Board, Royal Commission on the Potato Industry, Public Hearings, Vol. II, 27 January 1987, p. 421.

63. Ibid.

64. Potato Statistical Summary, Tables 22, 24.

65. Roygold Marketing Systems Ltd., p. 171.

66. Ibid., p. 173.

67. Jim de Graaf, "Future Trends of Seed Potato Exports," presented to the PEI Agricultural Conference '87, 5 March 1987, p. 3.

68. Potatoes Canada, Annual Report 1985-1986 (Fredericton: Potatoes Canada, 1986), p. [3].

69. Letter to the Commission from the Agricultural Inspection Directorate, Agriculture Canada, 28 May 1987.

70. Potato Statistical Summary, Table 22.

71. Mitch McLean, p. 367.

72. Jim de Graaf, p. 3.

73. Interview with Orville Page, past Director of the International Potato Centre, conducted by the Commissioner and the Assistant to the Commissioner, Summerside, 23 April 1987.

74. Cavendish Farms, Royal Commission on the Potato Industry, Public Hearings, Vol. I, 3 February 1987, p. 38.

75. Ibid., p. 40.

76. Roygold Marketing Systems Ltd., p. 75.

77. Prince Edward Island Potato Processing Council, Royal Commission on the Potato Industry, Public Hearings, Vol. II, 5 February 1987, p. 518.

78. Ibid., p. 519.

79. Carl Jackson, Cavendish Farms, Ibid., Vol. I, 3 February 1987, pp. 24, 25, 40.

80. Cavendish Farms, "Fall Contract 1986."

81. Roygold Marketing Systems Ltd., p. 73.

82. "Fall Contract 1986," p. 2.

83. *Agricultural Statistics 1985*, p. 55.

84. Prince Edward Island Department of Finance and Tourism, *International Exports from Prince Edward Island, Annual Values 1969-1984* ([Charlottetown]: Department of Finance and Tourism, 1986), p. 6.

85. *Ibid.*, p. 29.

86. Cavendish Farms, pp. 50, 51.

87. *Agricultural Statistics 1985*, p. 55.

88. Agriculture Canada, Agriculture Development Branch, *Potato Market Review 1985-86* = *Revue du marche des pommes de terre 1985-1986* (Ottawa: Agriculture Canada, 1987), p. 52. For further information, see Appendix E.

89. *Potato Statistical Summary*, Table 35. For further information, see Appendix F.

90. Prince Edward Island Potato Marketing Board, Farm Committee, "Report of the Farm Committee," in *The Prince Edward Island Potato Marketing Board Annual Reports and Financial Statement 1985-86* ([Charlottetown]: Prince Edward Island Potato Marketing Board, 1986), p. [1].

91. Elite Seed Growers, _Royal Commission on the Potato Industry, Public Hearings_, Vol. I, 30 January 1987, p. 142.

92. _Ibid_., p. 148.

93. Elite Seed Growers, "Contract for Growers of Elite Seed Potatoes in the province of Prince Edward Island," p. 5.

94. _Prince Edward Island Potato Marketing Board Annual Reports and Financial Statement 1985-86_, p. [1].

95. "Contract for Growers of Elite Seed Potatoes," p. 5.

96. Elite Seed Growers, _Royal Commission on the Potato Industry, Public Hearings_, p. 152.

97. _Ibid_., p. 142.

98. _Ibid_., pp. 142-143.

99. Clarey Farms, _Ibid_., 14 February 1987, p. 60.

100. Federation of Agriculture, _Ibid_., 31 January 1987, p. 172.

Chapter 4

Product Quality

The Prince Edward Island potato industry is far removed from its major markets. As a result, the Island industry cannot appeal to most consumers on the basis of supporting locally-grown potatoes and local farmers. Instead, the maintenance and potential growth in markets for Island potatoes rests with the quality of product delivered to the consumer. At present, the consumer perceives Island potatoes to be of superior quality relative to product grown in many other areas of Canada and the United States. However, such perceptions can be easily eroded. Prince Edward Island must be perceived not only to produce a quality potato, it must indeed so do.

The issue of quality within the potato industry is all-encompassing and runs throughout almost every stage of production, handling, and marketing. A host of factors contribute to the quality of product available for market and include such items as the quality of seed, growing and harvesting practices, storage, grading, packaging, inspection, and distribution. The eventual quality of the product delivered to the consumer can be determined by any one, or a combination of, factors and this poses problems of accountability. It is sometimes convenient for one participant in the industry to blame another for poor quality. For instance, a farmer may blame a dealer for a poor-quality product entering the market and the dealer in turn may blame the inspector, who will claim that the ultimate responsibility for quality rests with the dealer. The outcome of this practice is that no one is held responsible and often little is done to redress a problem.

It is obvious that much could be said about a number of issues relating to quality. The Commission will address the following areas: Elite Seed Standards, Inspection, Potato Storage, and Merchandising.

Elite Seed Standards

The Elite Seed program is most important to the Island industry because it provides the basis for the multiplication of disease-free quality potatoes on Prince Edward Island. According to the Elite Seed Growers Association, "The Elite Seed Program, as we known it, is ... a vital and essential link in the long chain of endeavours by which the potato industry competes in order to maintain our present level of quality and participation in the world markets."[1]

The effectiveness of the Elite Seed Program is crucial to the future of the Island potato industry. While it is acknowledged that the existing program is very successful, and is providing a commendable service to the Island industry, there is room for improvement.

The organization of the Elite Seed Program allows for multiplication of seed up to and including the Elite 11 level at the Elite Seed Farm on Fox Island. At the Elite 111 level, the multiplication process is handed over to approximately 47 Elite Seed growers under contract to the Board.[2] This renders quality control more difficult. Standards vary among the different growers, and thus it is important that uniform standards be established to ensure consistency across the program.

The current Elite Seed contract does make reference to standardization in some areas. For instance, Clause 10 of the contract makes it incumbent on the grower "to provide sufficient storage which is generally accepted by the industry."[3] However, there are no standards in place and it becomes a matter of judgment as to what constitutes "sufficient storage". The Elite Seed grower may have one notion, while the Elite Seed Co-ordinator may have another. As a result, no uniform standard for storage can be applied, a situation which is fair neither to the Elite grower nor the Board which administers the contract. More important, such a situation should not be acceptable to the industry. It becomes even more important to have standards in place in view of the turnover of staff at the Board; if the Elite Seed Co-ordinator departed there would be little to ensure consistency.

Storage represents but one area where standards should be established. If defined further, they could also be established for growing practices and handling. It is recognized that the establishing of standards is by no means an easy exercise. At any given point in time, there will be found Elite growers unable to meet a specific standard established in a contract, resulting inevitably in a lack of consensus among producers as to which standards should be adopted. The most constructive approach may be to establish standards with a view to phasing them in over a ten-year period, allowing all concerned adequate time to adjust. It is also fundamentally important that the process of establishing standards include representation from the Elite

Seed growers. After all, it is their livelihoods which ultimately will be affected by any changes.

The importance of standards for Elite Seed goes beyond quality. The development of industry standards would provide a measure of assurance to foundation growers who purchase Elite Seed. Under current arrangements foundation growers must purchase Elite Seed based on the reputation of the Elite Seed grower, but there is no assurance that the seed will be of the desired quality. Such an approach is not sufficient to ensure the propagation of quality potatoes on Prince Edward Island.

Education programs can also play an important role in maintaining quality standards. Farmers must be made aware of new techniques and developments aimed at improving quality. Such an educational process should be continuous in nature and include Elite Seed officials serving the Board, provincial extension workers, inspectors and, of course, Elite growers. It is important for all those who work with Elite growers on a continuous basis to keep abreast of developments within the Elite Seed sector and to relay these developments to growers.

Inspection

Potato inspection has in recent years been the subject of some controversy, the result of efforts by various levels of government to restrain expenditures and to recover costs. An important result of these restraint measures has been the increased cross-utilization of inspection staff. It is not for the Commission to judge the wisdom of government's financial policies. However, the

Commission is concerned with the level of inspection services delivered by Agriculture Canada.

Adequate inspection is essential to the Island potato industry. Given the importance of quality to the Island industry, and the variability of product quality from dealer to dealer and from producer to producer, inspection often serves as the only means of ensuring that a quality product enters the market. It must be recognized that inspection cannot serve as a guarantee of quality, but only as an assurance of quality. The fact that the seller must take ultimate responsibility for quality does not eliminate the need for an effective inspection service.

The benefits of thorough inspection can be observed with respect to Island potatoes sold in the United States. All tablestock potatoes destined for the United States are subject to inspection on the Island. As well, in December 1985, the American government reduced the number of border entry points for potatoes from seven to three, and recommended periodic spot-checks on Canadian potatoes crossing the border. The United States government rationalized this action by citing quality complaints regarding eastern Canadian potatoes.[4] While the American action was initially considered a trade irritant, it has since come to be viewed as a positive development for the Island industry; a higher-quality product is now flowing into the American market, strengthening the Island's position.[5] In effect, United States-bound potatoes from the Island are subject to double inspection.

The rigorous inspection requirements on product destined for the United States is not required on product entering Canadian markets. A major portion of Island potatoes moving within Canada flows through 52 registered warehouses, which are subject only to periodic spot checks.[6] Potatoes flowing through unregistered warehouses are intended to be subject to inspections on every load, but release certificates (known as "y" certificates) are often issued by inspectors who allow product to move to market without inspections.[7] There is no inspection at Canadian market destinations unless the buyer wishes to make a claim against the shipment.

It is obvious that the on-Island inspection of product destined for the United States is more rigorous, which suggests that Canadian consumers are receiving a lower level of quality protection than their American counterparts.

The federal Agricultural Inspection Branch on Prince Edward Island employs 65 staff members operating from 10 offices and 22 inspection districts across the province. Since 1980, there has been a loss of approximately 10-12 employees in the Inspection Branch. These staff cuts were achieved both through the elimination of supervisory positions and adoption of cross-utilization within the Branch.[8] Much of the cross-utilization involves inspectors examining both tablestock and seed potatoes. In some cases, cross-utilization may involve largely unrelated commodities such as potatoes and livestock.

The changes within the organization of the Inspection Branch have caused some anxiety. It is felt by some in the industry that, due to cross-utilization, many inspectors may have lost some of their loyalty to seed or tablestock potatoes. Those who perform inspection on seed and tablestock potatoes may no longer have the same level of interest in one particular commodity type (e.g., seed). Although intangible, this side-effect of restructuring is nonetheless important.

Another industry concern is the move on the part of the Inspection Branch to have the industry police itself. This move is evident in the increasing reliance on registered potato warehouses and the apparent willingness on the part of the Branch to issue "y" releases, indicated in table 4A.

Table 4A

Comparison of Inspection Data(1984-85 to 1986-87) (000 cwts.)

	1984-85	1985-86	1986-87
Tablestock shipped	8,098	5,934	8,623
Amount inspected	5,158	3,449	4,471
Amount shipped on "y" # certificate	941	308	915
Amount shipped on "y" # certificate due to lack of inspection services	369	215	595

Source: Agriculture Canada, Agriculture Inspection Branch (P.E.I.); information obtained by the Commission.

Table 4A indicates that, in the years 1984-85 and 1986-87, a larger volume of potatoes was marketed than in 1985-86. Despite the fact that over 500,000 cwt. more were shipped in 1986-87 as compared to 1984-85, almost 700,000 cwt. less were subject to inspection, suggesting an increased reliance on registered warehouses. The amount shipped by use of "y" certificates remained fairly stable, if the years 1984-85 and 1986-87 are compared. In 1985-86 the amount shipped by "y" certificates was much lower, perhaps owing to the reduction in tablestock shipments. Thus, the demands on the inspection service were reduced in that year.

The combination of cross-utilization, increasing dependence on registered warehouses, and the greater use of "y" certificates, leads many to conclude that the level of inspection services has declined in recent years. Indeed there appears to be a strong basis for such a conclusion. The focus on reduced service is particularly significant in light of cost-recovery inspection fees which, for tablestock potatoes, were 3 cents per cwt. prior to 1 April 1987 and are scheduled to increase to 15 cents per cwt. by 1990.[9] Hence, many potato producers are unhappy that they now have to pay for a service that is, in fact, on the decline. Government restraint appears to have had a double-barrelled effect - the increase in user fees on the one hand, and reduced service on the other.

The Island industry's competitive position also can be affected seriously by increased inspection fees. The Island industry ships most of its product outside the province, making it subject to federal inspection and user fees. On the other hand, a province such as Ontario ships most of its potatoes within its own boundries. Hence, the bulk of its potatoes are subject to provincial inspection which does not have a cost recovery program. Island farmers must carry an additional cost not borne by their counterparts in other provinces servicing the same market.[10] As a result, many industry officials feel inspection fees are discriminatory.

Reductions in the inspection service may erode as well as the Island's reputation for marketing a high-quality product. For instance, if a significant volume of largely uninspected product is being moved to the market, the chances are increased that poor-quality product will slip through. Any long-term erosion of quality level will be manifested in a difficulty in gaining and maintaining a particular market.

Potato quality is the responsibility of those who sell the product. Without adequate inspection of product uneven quality will enter the market. Some dealers and producers place a high-standard product on the market and strive to make quality improvements. Others attempt to enter onto the market a product at a minimal acceptance level. Of course, low-quality potatoes tend to lower consumer perception of the entire industry's quality standards; they are more likely to remember poor-quality Island potatoes. In the Commission's view, more rigorous inspection is needed to ensure that only high-quality potatoes enter the marketplace.

The Commission has pointed out some shortcomings in potato inspection; however, there have been some positive developments. Prior to 1987, approximately 80 per cent of the Island's total potato acreage was field inspected. In 1987, it is expected that this will be the case for 100 per cent of the crop. In addition, changes to the Plant Disease Eradication Act (1974) require every potato farmer to plant a minimum of 10 per cent foundation class seed for each variety of potato planted, and applications for inspection are now mandatory.[11] This means that all potatoes grown on the Island will be subject to field inspections. This development must be viewed as positive. However, it is aimed basically at quality control in the production of potatoes. A similar level of thorough inspection should be sought for product shipped to market.

Potato Storage

Adequate storage is necessary to successful marketing. It is vital to the maintenance of quality potatoes as the marketing season progresses. In addition, proper storage can help minimize shrinkage and cullage which can bear dividends for the producer. Obviously the Island industry has a major interest in ensuring that proper storage facilities are in place.

The most recent data available on storage is in the Potato Storage Facility Inventory Survey of P.E.I. completed in 1980. While this information is somewhat dated, it does tend to confirm the views of many within the industry that a need exists for better storage, involving the provision of climate-controlled facilities with pile-through ventilation and humidity control. (For more information, see background paper prepared for the Commission by HP Consultants, Quality Issues.)

It is estimated by industry specialists that current potato storage facilities on the Island allow for a shrinkage factor of between 10 and 15 per cent; further, that with proper storage facilities this could be reduced by half.[12] Based on tablestock shipments of 8.6 million in 1986-87, a drop of 4 per cent in shrinkage over the next five years would result in an annual weight and size enhancement of 336,000 cwt. At an average price of $5.00 cwt., there could be a monetary gain for the Island industry of $1.68 million.[13] Moreover, proper storage can reduce the breakdown of the potato from starch to sugar, which would help maintain potato quality and coloration, and hence consumer interest.

Many in the industry claim that the payback on climate-controlled storage can be realized within two years. This raises the question of why farmers are not making the necessary adjustments. There are two major reasons: first, the up-front capital cost may be prohibitive to a number of farmers; and second, there appears to be a problem in convincing farmers of the advantages of proper storage.

A number of capital assistance programs have existed to help farmers upgrade storage facilities. For example, under the Comprehensive Development Plan assistance was made available in the form of 50 per cent capital grants Another source of funding is the National Fruit and Vegetable Storage Program which has been in place since 1973, under which a 33 1/3 per cent capital grant is available. However, this program has been brought to a virtual halt with only approximately 700,000 dollars available on a national basis. Currently, the major source of assistance is a program available under the E.R.D.A. Agriculture Sub-Agreement, which offers one-third assistance for environmental systems. Since 1984, the program has assisted 50-55 farmers, with a total cost of approximately $500,000.[14]

The necessary capital incentives appears to be in place, but many producers may not take advantage of them because of personal financial circumstances. In addition, capital assistance programs by nature tend to favour larger production units which, unlike smaller units, may have the financial resources to take advantage of such opportunities.

In the Commission's view, the only way to resolve this problem is to encourage four or five smaller-scale farmers to use jointly-held storage facilities.

Naturally, such a solution would apply only to tablestock potatoes, as the joint storage of seed potatoes may enhance the spread of disease. However, farmers do not necessarily like to share facilities; they prefer tc own and control the total means of production within the boundaries of their own farm unit. Nonetheless, small farmers must use jointly-held storage facilities if they are not to be deprived of its benefits.

Storage is also of concern to the processing sector. The supply of potatoes during the summer months is crucial to processing at the Cavendish Farms plant. It is during this period that the supply of potatoes for processing runs low because previous season supplies are almost completely used up and farmers are growing a new crop for the upcoming season. To compensate for shortages, Cavendish Farms store approximately 50,000,000 pounds of potatoes for the summer season, approximately 65 per cent of which are from their own growing operation and 35 per cent from selected growers.[15]

An increase in Cavendish Farms' sales has meant a congruent rise in potato requirements. While this situation is positive, it does raise a major concern with respect to adequate storage facilities to keep the plant operational during the summer months. In the processor's view there is a growing need for additional storage capacity, and the Commission supports this view.[16] Such a facility could be owned by willing process growers and made possible through government assistance and contract incentives from Cavendish Farms. The preferable location would be in the East Prince area.

Proper storage is important for the Island industry to enhance quality and maintain its position in the marketplace, especially since other producing areas such as Ontario and Maine tend to place greater emphasis on storage. Storage in the processing sector is also important to the full utilization of the province's processing plants. Moreover, improved storage may represent an important step toward reducing cullage. In the Commission's view, this component of the industry requires more attention.

Merchandising

Merchandising techniques can play a major role in the quality control of product delivered to the market. The Commission has been surprised by the fact that there are few checks and balances within the province's marketing system to help ensure quality. With the exception of inspection, the only other check appears to be the consumer. Obviously it is dangerous to depend upon the consumer as the final check, since irreparable damage can occur before the industry has time to react. It is difficult to regain consumer confidence once it is lost.

A system of rewards and penalties to high- and low-quality marketers should be instituted. Such a mechanism might be the introduction of a Trademark of Excellence, whereby marketers meeting certain quality criteria would be eligible to advertise a Trademark of Excellence on their packages. Such criteria should be reasonably strict and encompass proper storage, grading and packaging facilities, an exemplary inspection record, a good record with respect to consumer complaints, and a number of of other criteria.

The Trademark of Excellence would be awarded to those who consistently place on the market a quality product. Those who do not would be denied the trademark, or if in possession of it, lose it. The new commodity board could operate such a program and take precautions to ensure its integrity. For instance, the panel or committee members granting and reviewing the trademark should not stand in conflict of interest. This problem could be avoided by the appointment of an independent panel of non-industry participants, such as produce retailers, consumers and retired dealers.

Another means of recognizing those who place a quality product on the market is to allow high quality potatoes to carry a premium branding as indicated on the packaging. A premium brand would be a product of higher quality than Canada #1, having fewer defects. There are currently some superior quality potato packs leaving the province, due partly to tighter controls for exporting to the American market, and to a desire on the part of some dealers to gain a good reputation. If these potatoes were marked with a premium Prince Edward Island brand, superior to Canada #1, they would be able to command a higher price in the marketplace.

The introduction of a premium brand would require the co-operation of the Agricultural Inspection Branch. Although details would need to be worked out, it should be possible for an agreement to be reached. The major argument against introducing a premium brand is that it may erode the status of Canada #1. While there might be some validity to this argument, it still may be necessary to move to a premium brand for the Island to maintain a quality edge in the marketplace. All provinces would continue to have Canada #1 potatoes, but only the Island would have a Prince Edward Island premium brand. The industry must, of course, give recognition to those whose product qualifies at premium level.

A further concern with respect to merchandising is the packaging of Island potatoes outside the province. A significant amount of potatoes are shipped in bulk and repacked in warehouses in places such as Maine and Ontario. While this means both a loss of value added and jobs to the province, it also removes quality control from the local industry. In the Commission's view, the potential for quality control problems is serious. Out-of-province packers of Island potatoes should be approved by the new commodity board and regular monitoring should be conducted to ensure quality standards are met.

Finally, the industry needs to give more attention to consumer input. Consumer complaints are often viewed as an uncomfortable embarrassment to be quickly hushed, and are therefore too often forgotten. Such input should be treated as constructive criticism. In fact, the industry would be well-advised to encourage consumer feedback by carrying on packages a label addressed to the Board inviting comments (positive or negative). Such comments would then regularly be relayed back to the industry through the Board's monthly newsletter. In addition, the new Board should set up a small fund to reimburse consumers who had the misfortune to purchase a poor-quality package, the cost of which would be charged back to the dealer. This scheme would represent a positive approach to consumer relations and send a clear message to the marketer.

Quality is of prime importance to the Island potato industry. It is likely to be a factor increasing in importance in the future. In 1983, the Longwoods Research Group conducted a study known as The In Home Consumption of Table Potatoes in Central and Eastern Canada, which found that the consumer's paramount concern was with quality. The study also pointed out that consumers tend to view all potatoes as being alike, with the possible exception of some regional identification. Moreover, it was posited by the study that "generally speaking, the younger the age group, the less their commitment to potatoes" as a basic food.[17] This points to increased consumer preference for potato substitutes such as pasta and rice.

The information contained in the Longwoods' study has a very strong message for the Island potato industry. Consumers have become more discerning about the product they wish to purchase. As a new generation of consumers appears, the Island industry will not be able to survive solely on reputation. In the Commission's view, the best strategy for gaining and maintaining consumer preference is to produce a quality product.

In this chapter, the Commission has addressed some areas which have implications for potato quality, such as Elite Seed standards, inspection, storage, and merchandising. Specific recommendations will be made regarding each of these areas. However, product quality involves a number of other factors as well - farmer attitudes, education, and disease control. These areas will require continued effort.

RECOMMENDATIONS

The Commission makes the following recommendations:

Elite Seed Standards

1. That a committee be established to formulate standards for the Elite Seed sector, to consist of representatives from the new commodity board, the provincial government, the Potato Producers' Association, the Agricultural Inspection Branch of Agriculture Canada, and the Elite Seed Growers Association.

Inspection

2. That the potato industry and the provincial government work with the Agriculture Inspection Branch of Agriculture Canada towards eliminating or drastically reducing the amount of potatoes being shipped under "y" certificates.

3. That the potato industry and the provincial government work with the Agriculture Inspection Branch of Agriculture Canada towards increasing the number of spot checks conducted at registered warehouses.

Potato Storage

4. That the provincial government conduct an awareness program to demonstrate to producers the benefits of improved storage. Such a program should provide evidence of quality differences between potatoes grown in different storage conditions as well as the economic benefits possible with improved storage.

5. That the provincial government undertake two pilot projects involving joint storage of tablestock potatoes. Each project should involve five or more farmers who, in the initial years, will pay a rental fee to use storage facilities. Should the project prove successful, the participating farmers may purchase the facility from the province.

6. That the provincial government undertake a study on the feasibility of establishing a climate-controlled storage facility for processed potatoes in the East Prince area.

Merchandising

7. That the potato industry adopt a Trademark of Excellence which qualified dealers would be able to advertise on packaged products.

8. That the Island industry work towards the development of a premium brand Prince Edward Island potato.

9. That any operations involved in repacking Island potatoes outside of Prince Edward Island receive approval from the new commodity board and be monitored for product quality. Should the new commodity board obtain a trademark for Island potatoes, certain conditions then could be placed on off-Island dealers involved in repacking.

10. That the new commodity board encourage consumer feedback by requiring that each package of Prince Edward Island potatoes carry a label inviting consumer comments.

11. That consumer comments be regularly relayed back to the industry through the new commodity board's newsletter.

12. That the new commodity board establish a fund to reimburse consumers who complain of the quality of product purchased. At the end of each marketing season, the fund could be recouped by billing back to the dealers responsible the cost of reimbursement.

FOOTNOTES

1. Elite Seed Growers Association, *Royal Commission on the Potato Industry, Public Hearings*, Vol. I, 30 January 1987 (Charlottetown: Royal Commission on the Potato Industry, 1987), p. 141.

2. *Ibid.*, p. 143.

3. Prince Edward Island Potato Marketing Board, "Contract for Growers of Elite Seed Potatoes in the Province of Prince Edward Island," Clause 10, p. 2.

4. Interview with Geoff Adams and Marion Wilson, External Affairs, conducted by the Commissioner, Assistant to the Commission, and Commission Consultant, Ottawa, 16 March 1987.

5. Interviews with representatives of the Maine Potato Commission, conducted by the Commissioner, Presque Isle, Maine, 7 July 1987; with Brenda Pryer, Pollack Riverhead Corporation, Holton, Maine, 7 July 1987; and with Joanne Doylan, Goldbells, Boston, Massachusetts, 9 July 1987.

6. Interview with Paul Farrell, George Walsh, and Dave MacSwain, Agriculture Inspection Directorate, conducted by the Commissioner and the Assistant to the Commission, 22 April 1987.

7. HP Consultants, *Quality Issues*, prepared for the Royal Commission on the Potato Industry (Cornwall, P.E.I.: HP Consultants, 1987), p. 7.

8. *Ibid*., p. 6.

9. Interview with Paul Farrell, George Walsh, and Dave MacSwain, Agriculture Inspection Directorate.

10. HP Consultants, p. 10.

11. *Ibid*., p. 5.

12. *Ibid*., p. 20.

13. *Ibid*.

14. *Ibid*., p. 21.

15. Cavendish Farms, *Royal Commission on the Potato Industry, Public Hearings*, Vol. I, 3 February 1987, p. 27.

16. Interview with Blaine MacPherson, Scott MacDonald, and Carl Jackson, Cavendish Farms, conducted by the Commissioner and the Assistant to the Commission, New Annan, 23 April 1987.

17. Longwoods Research Group Ltd., *A Study of the In Home Consumption of Table Potatoes in Central and Eastern Canada*, prepared for Market Development Directorate, Marketing and Economics Branch, Agriculture Canada (Toronto: Longwoods Research Group Ltd., 1983), p. 49.

CHAPTER 5

The Prince Edward Island Potato Marketing Board

In Chapter 6, the Commission will be recommending the establishment of a commodity board under the provisions of the Natural Products Marketing Act (R.S.P.E.I. 1974, cap. N-2). For the purposes of this chapter, the current marketing board will be referred to as "the Board," while the new organization will be termed "the commodity board."

The present Board is a creature of the Temporary Plan re Potatoes, established under the provisions of the Marketing Act (1956, cap. 23, s. 1). The Temporary Plan and the Board were first ratified by a producer vote in 1965. Since that time the Board has been the subject of considerable controversy, culminating in the plebiscite of October 1986, which led to the creation of this Commission. Sometimes this controversy centered on the legislation under which the Board operates. Often it concerned the Board itself, its activities, and its membership.

As the history of the industry indicates, the Board was designed, after considerable controversy, to bring together the major interests of the industry. This accommodation of interests is reflected in the original composition of the Board; it was to be composed of nine members, six of whom were to be producers and three of whom were to be dealers. This accommodation of interests was a reflection of the fact that the interests of growers and the interests of dealers are not always the same. The grower has a natural interest in obtaining the highest price for his product. The dealer has a natural interest in moving larger volumes of product in order to increase revenues from established margins. In recent years, the conflicting interests between growers and dealers have been confused by the emergence of a large number of producer-dealers. Many producer-dealers move mainly their own product and their interests are often difficult to define. The presence on the Board of producer-dealers has created a perception that the Board no longer represents an accommodation of interests, and that it no longer represents the interests of many growers. The composition of any organization cannot be ignored as it is an important element in determining its orientation and its activities.

For the 1986-87 year, the Chairman and Directors of the Board were as follows:[1]

Chairman:	Elmer MacDonald	producer-shareholder Mid-Isle Farms	Prince County
Directors:	Alvin Keenan	producer-dealer	Kings County
	John A. MacDonald	producer	Kings County
	John MacDonald	producer-dealer	Kings County
	Winburn Harris	producer	Prince County
	Harold Muttart	producer-dealer	Prince County
	Don Allan	producer-dealer	Queens County
	Wilfred Newman	producer	Queens County
	Morley Smith	dealer	Queens County

The Board has seven senior staff members. These are as follows:[2]

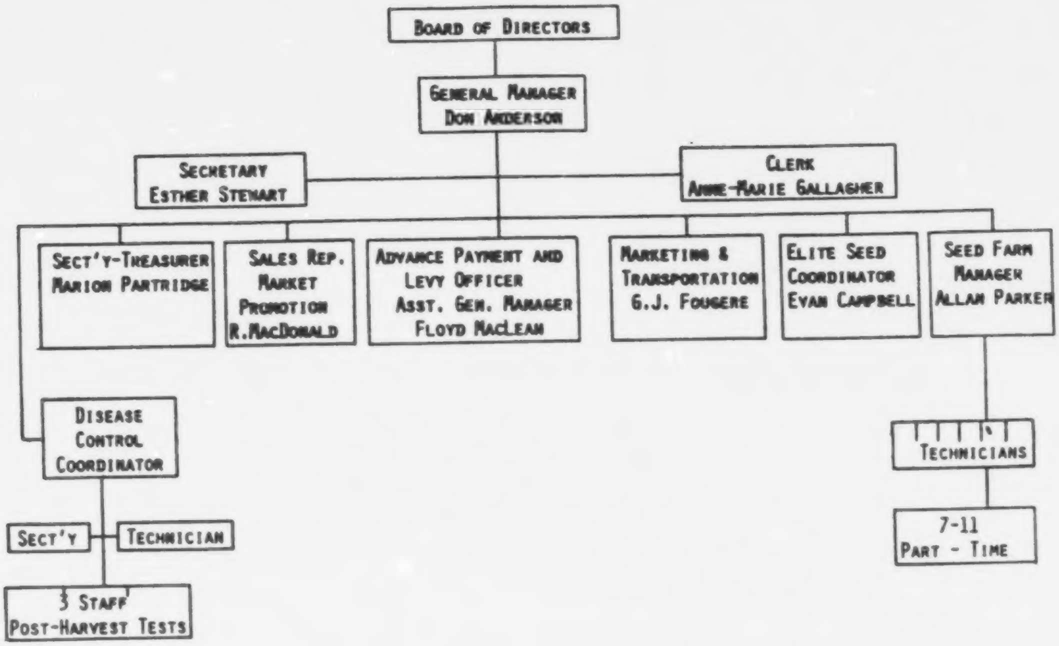
General Manager:	Don Anderson
Secretary-Treasurer:	Marion Partridge
Assistant General Manager, Advance Payment and Levy Officer:	Floyd MacLean
Marketing and Transportation:	G.J. Fougere
Quality Control Fieldman and Promotion:	Ronald MacDonald
Elite Seed Farm:	Alan Parker
Elite Seed Co-ordinator:	Ewen Campbell

Although there is no formal organizational chart, Table 5A on the following page gives a general indication of the organization of the Board. The General Manager represents the staff link with the Board. He serves more as an advisor to the Board's directors with limited authority over staff. There is a multiple chain of command with staff often taking supervision from Board members. The ultimate effect of this organizational structure is that division between the administrative and policy functions of the Board is quite blurred. Board organization will be discussed later in this chapter.

In the fiscal year 1986-87, the Board's budget was $1.228 million, an increase of approximately $158,000 over the previous year. Of this total, $149,000, or approximately 12 per cent of the budget, was made up of grants for the Seed Farm, Research Centre, and the Disease Control Project. The bulk of Board revenues is raised through a levy which is seven cents per cwt. for producers and three cents per cwt. for dealers. A small amount of revenue is also raised by the sale of dealers' licenses, which can be obtained for a fee of $400. In the fiscal year 1985-86, the Board experienced an excess of expense over

TABLE 5A

P.E.I. POTATO MARKETING BOARD ORGANIZATION


BOARD OF DIRECTORS
GENERAL MANAGER
DON ANDERSON
SECRETARY
ESTHER STEWART
CLERK
ANNE-MARIE GALLAGHER
SECT'Y-TREASURER
MARION PARTRIDGE
SALES REP.
MARKET
PROMOTION
R.MACDONALD
ADVANCE PAYMENT AND
LEVY OFFICER
ASST. GEN. MANAGER
FLOYD MACLEAN
MARKETING &
TRANSPORTATION
G.J. FOUGERE
ELITE SEED
COORDINATOR
EVAN CAMPBELL
SEED FARM
MANAGER
ALLAN PARKER
DISEASE
CONTROL
COORDINATOR
SECT'Y
TECHNICIAN
3 STAFF
POST-HARVEST TESTS
TECHNICIANS
7-11
PART - TIME

income of $242,000, reducing its accumulated surplus at the end of the year from $564,000 to $322,100. This occurred despite the Board's efforts to reduce expenses to meet a decline of $388,000 in revenue. The decline in revenue was caused by a substantial diversion of product from the market during that year. This situation appears to have been corrected in the 1986-87 fiscal year and the Board is likely to achieve a surplus.[3]

With both human and financial resources, the Board carries out the following activities:

- managing the Elite Seed Farm Program
- acting as agent for the Disease Eradication Act (1976)
- administering the Advance Payment for Crops Program
- acting as lobbyist and advocate for the industry
- negotiating transportation rates with Canadian National
- supporting the Processing Council
- administering promotion programs
- administering licensing and marketing

Elite Seed Farm Program

The Board operates the Elite Seed Farm at Fox Island where it multiplies quality seed potatoes. The progeny from the Elite Seed Farm is then contracted to Elite Seed growers for further multiplication. A more in-depth description of the program has been given in Chapter 3. During the year ended May 31, 1986, the operations of the Elite Seed Farm cost $430,728, of which $325,053, or 75 per cent was covered by the Board. The remainder came from income generated by the Farm.[4]

Of all the programs delivered by the Board, the Elite Seed Program generally is considered to be the most successful. The Elite Seed Farm is producer-owned and managed by the Board. In other provinces, provincial governments cover the cost of similar programs, which are usually much more costly than the producer-run farm on the Island. Many people in the industry feel this function is the most important of the Board's activities. At the Commission's public hearings, several groups acknowledged both the importance of the Elite Seed Program and the Board's efforts in this area. In its brief to the Commission, the National Farmers Union stated: "[The Board] could, however, be given some credit for having maintained the Elite Seed Farm ... which [has] been helpful for the Island industry."[5]

Most certainly the Board deserves a great deal of credit for operating a good Elite Seed Program. That being said, there is a great deal of validity to the argument that because producers must financially support the Elite Seed Farm, they are placed at a competitive disadvantage. This point was made by Elwood Lawton of the Count Potato Association at the Commission's public hearings: "... [T]he growers through our levy, support the Elite Seed Farm. Granted there is provincial dollars paid to it. But in New Brunswick the government totally funds the seed farm, totally funds it."[6]

In the Commission's view, the Elite Seed Farm should remain producer-controlled under the auspices of the new commodity board. The industry has demonstrated that it has run an efficient and cost-effective program, and there is no reason to remove it from the industry's direction. However, the provincial government should consider on-going financial support of the Elite Seed Farm in order to remove the competitive disadvantage of Island growers relative to growers in other provinces.

Of all the programs delivered by the Board, it is in this program that both producer and dealer interests converge. Both have a long-term stake in high-quality, disease-free potatoes. Perhaps this helps in large part to explain the Board's success in this area.

Finally, the Commission would like to point out that the Elite Seed Program affords the Board and its Farm Committee, which manages the Farm for the Board, a great deal of decision-making powers affecting participants in the sector. For instance, they can make decisions affecting entry and exit of Elite Seed growers from the program. Such decisions can have an important impact on the livelihood of an Elite Seed producer, yet the producer does not have the benefit of an appeal to an independent body outside the Board. The producer can appeal only a Farm Committee decision to the Board. Such an appeal may not, in fact, be an appeal at all as the Board may feel compelled to stand behind the decision of one of its committees. While the Commission is not suggesting the Board has made any unfair decisions, the nature of the Elite Seed program underscores the need for an independent appeal of Board decisions. Justice must not only be done, it must be seen to be done.

The Commission would like to stress the importance of this aspect of the industry and emphasize that its continued maintenance and health is of utmost importance to the industry. No doubt the Board has done much to nurture and develop this sector, an achievement for which it deserves much credit. Nonetheless, there are issues which should be addressed. Some of these concerns have been dealt with in Chapters 3 and 4. In this chapter, the Commission makes recommendations only about financing for the Elite Seed Farm.

Disease Eradication Act (1974)

Under the Province's Disease Eradication Act (R.S.P.E.I. 1974, cap. P-7), the Board is named as agent. In effect, this means that the Board is responsible for enforcing the Act. It does this through co-operation with both federal and provincial officials. The main responsibility of Board officials in enforcing this Act has been to contain and to eradicate ring rot. The financing of the Plant Disease Eradication Program is currently supported under a three-year Economic and Regional Development Agreement (E.R.D.A.) which is expected to expire in the spring of 1988.[7]

The enforcement of the Disease Eradication Act (1974) would appear to fall naturally within provincial government responsibility. However, it is argued by many, including the Board, that the provincial government cannot be relied upon to deliver such a program. It is felt that the province is too much subject to partisan influence and would find it easy to relax enforcement in certain circumstances. Apparently this was the reason why the Board was named agent in 1974.

Despite some of the difficulties involved in delivering the Disease Eradication Act (1974), the Commission is of the view that the new commodity board should remain as agent. No doubt it is an unpopular program to deliver, but it is necessary and should be viewed as just one of many unpopular functions carried out by any board. A stronger delineation between the policy and administrative functions within the new commodity board would help engender greater trust amongst the farm community with respect to that board acting as agent for the Disease Eradication Act (1974).

Advance Payment for Crops Program

The Advance Payment for Crops Program is a federal program. It is designed to enable producers to put their crop in storage at harvest time and sell it over the remainder of the marketing season while maintaining a cash flow. The Board administers the program for Prince Edward Island. In all likelihood, the Board is the only producer organization that could administer the program, which requires that the administering organization represent a significant portion of crop land or producers, have the financial resources to cover a portion of uncollected accounts, and meet an array of other criteria.[8] A commodity board is the appropriate authority to deliver this program.

Under the Advance Payment for Crops Program, a producer is eligible to receive up to $30,000 for an individual proprietorship, $60,000 for a partnership, and $90,000 for a corporation.[9] To be eligible for an advance loan, the producer must meet several financial and other criteria. The advance is forwarded to the producer each fall after harvest and is usually collected by levying 2¢ per pound on produce sold by the producer until the advance is repaid. Island dealers often act as agents for the Board in collecting the payments.

This program is the target of some criticism. Some feel the program is being administered too rigidly and this consequently generates producer hostility against the Board. In its brief to the Commission, the National Farmers Union stated:

> The members of the Board who have taken specific actions relating to the disbursement or refusal of payments to farmers are not even aware of the Act under which they are functioning. Ordinary farmers have little recourse if they are turned down.[10]

Others feel that the program represents undue interference in the economic process, particularly since the loans are interest-free. This point was made by Linkletter Farms in its brief to the Commission:

> The Marketing Board should not be involved in the financing of potato crops loan guarantees. There are financial institutions for this purpose. It seems to us this does the potato industry and the individual farmer an injustice if we continue to provide finances long after an operation is no longer viable.[11]

Some feel that the program tends to be of more benefit to smaller rather than larger producers because of the loan ceilings with the result that it encourages inefficient producers to remain in the industry. Still others believe that, given the opposition the Board must face in collecting loans, it is too controversial. Some dealers dislike the paperwork required as part of the loan collection process.

In the Commission's opinion, a new commodity board would be remiss in its responsibilities if it did not deliver this program. In administering the program, the Board is only acting under guidelines, rules, and procedures set down by the federal government; perhaps a greater effort should be made to make this clear to producers. It is important for Island producers to have access to this program in order to remain competitive with producers in other provinces who also have access to the program. It is of particular importance for small producers to whom financing is less accessible than to larger producers. The Board should be commended for taking on the responsibility of administering this program and withstanding the resulting criticism.

This program represents an activity by the Board which is clearly in the interests of producers, which might help explain why most of the criticism against the program comes from producer-dealers and dealers. In the Commission's view, it is an important program which should be maintained.

Lobbyist and Advocate for the Industry

A largely undefined role of the Board is that of lobbyist and industry advocate. This is an important Board activity which takes place in provincial, national and, on occasion, international forums. Lobbying is a very natural part of the Board's role. Like all institutions which represent the interests of a particular industry, the Board will attempt to influence government decisions in the best interests of its members. As an industry representative, the Board automatically gains credibility with and access to government officials and politicians. It is an institution representing an important industry and is quickly recognized as such by officials.

On the provincial scene, from time to time the Board lobbies government for or against changes to certain regulations or legislation. This has been the case for the Marketing Act (1956), and the present Temporary Plan, which the Board has in the past wanted preserved. In addition to lobbying the province on legislative and regulatory matters, the Board also lobbies for funds for certain of its activities (such as promotion) and to enlist provincial support in lobbying the federal government.

The Board's lobbying at the federal level has involved such areas as changes to grade standards, reduced transportation costs, changes to the Seed Act (1959), elimination of cost recovery programs, and a host of other subjects. With issues of national importance the Board will attempt to enlist the support of other producing provinces. It may also enlist the support of such organizations as the Horticultural Council of Canada by proposing resolutions at annual Council meetings.

On the international level, the Board's chief role is as lobbyist, goodwill ambassador, and Canadian industry advocate. In recent years, much of the Board's attention in the international arena has been focused on the United States. Given that a large part of the Island's market is in that country, and in light of protectionist sentiments in the United States, it has been well worth the attention. In the early 1980s the Board fought a countervail suit brought about by the American industry. This legal battle represented, perhaps, one of the Board's proudest moments. It fought the countervail action successfully and largely on its own, in effect representing both Island and Canadian industry interests.

In the Commission's view, the Board has acted as a very strong industry lobbyist and advocate. Its success is not surprising in the Island context, given the importance of the industry. However, it appears to have been equally effective on the national and international stage. It may indeed be the strongest voice in the Canadian potato industry today. This may be partially attributable to the fact that the Board has a longer institutional history than those in other provinces. It has been generally effective in promoting the interests of the Island industry; its success as a lobbyist is commendable.

However, there is a cost factor associated with such effectiveness. As the major advocate for the Canadian industry at both the national and international level, the Board has expended a great deal of human and financial resources on this activity. This represents a cost borne by Island producers from which they receive only a portion of the benefits. The cost of supporting national and international lobbying belongs more appropriately under the umbrella of a national potato organization which could spread the costs across all Canadian producers; however, none has existed to share this burden.

Transportation

In a province far removed from its major markets, transportation is of crucial importance. In this area the Board has been active in attempting to protect the interests of the Island industry. On an annual basis, the Transportation Committee of the Board negotiates rates with Canadian National on its rail and intermodal service. It is felt that, by keeping CN's rates at acceptable levels, other carriers such as trucking firms must follow suit.[12] While the Board and the Atlantic Provinces Transportation Commission feel the Board has been very successful, it is impossible to assess its effectiveness. Like all negotiations, one wins on some occasions and loses on others.

The need to negotiate with Canadian National is obviously important and in the interests of both producers and dealers. In fact, it is of such importance that it is questionable whether a small provincial Board is the appropriate authority to be negotiating with a large national Crown corporation. Transportation rates ought to be negotiated on a provincial to federal government basis. In any case, the future of the process of negotiating rates with Canadian National may be doubtful. The proposed National Transportation Act (1986), which is in the process of becoming law, permits confidential contracts to be made with national carriers such as Canadian National. Concern regarding confidential contracts was related to the Commission by Craig Dickson, General Manager of the Atlantic Provinces Transportation Commission.

> That is a concern that the P.E.I. Potato Industry has about the new legislation [National Transportation Act].... [T]heir concern is that one potato shipper would be able to negotiate a contract which would be lower or have better terms and conditions than another potato [shipper] and the equality of transportation charges for all P.E.I. Potato shippers could be disrupted, destroyed....[13]

This is of great importance in that, owing to the volume shipped by any large corporation, some Island dealers associated with such large organizations may be able to avail themselves of more favourable rates than those offered other dealers. If this were kept confidential, no one else in the industry would be aware of such a contract and the Board's ability to negotiate uniform rates with Canadian National would be undermined. The Board has lobbied against such a change but apparently to no avail.

The Board's efforts on the transportation front also included establishing two loading docks at rail sidings around the Island. Apparently, the Board took up this cause in an attempt to make rail transportation more attractive to the industry. As it has turned out, this move has proven uneconomical since truck transport is increasingly becoming the preferred means of shipping due to time savings and convenience. Table 5B demonstrates this point.

Table 5B

Comparison of Annual Potato Shipments from P.E.I.
By Rail and Truck Into North American Markets
Volumes and Percentages (1981-82 to 1985-86)

	Rail		Truck		Total	
Year	Million cwt.	%	Million cwt.	%	Million cwt.	%
1981-82	2.45	32	5.30	68	7.75	100
1982-83	1.95	30	4.54	70	6.49	100
1983-84	1.67	25	5.04	75	6.71	100
1984-85	1.55	19	6.71	81	8.26	100
1985-86	.20	3	5.64	97	5.84	100

Source: Agriculture Canada, Potato Market Review 1981-82, 1982-83, 1983-84, 1984-85, and 1985-86.

Table 5B clearly indicates that rail transport of Island potatoes has declined steadily from the 1981-82 marketing year to the 1985-86 marketing year. In 1981-82, 32 per cent of potato shipments into the North American market travelled by rail, and 68 per cent were transported by truck. In 1985-86, rail accounted for 3 per cent of North American shipments, while truck transport accounted for 97 per cent. This dramatic shift away from rail to truck transport is a clear indication of the industry's preferred mode of transport, although some say it is the result of a lack of adequate service provided by Canadian National.

The apparent failure of the loading docks may be used by Canadian National as part of its argument for rail service abandonment on the Island. While the Board's involvement in the loading docks scheme may have been the result of wishful thinking as to potential success, not even the Board could put the brakes on the industry's move to truck transport. Customers want products delivered to convenient locations and on a faster and more timely basis. These are demands which only trucks or an intermodal service can meet. The fact is that the industry has increasingly less use for rail transport.

Prince Edward Island Processing Council

The Prince Edward Island Processing Council is a Committee of the Board representing growers who produce potatoes for processing. It consists of nine members, one from each county, and six members at large.[14] The basic purpose of the Council is to negotiate annual contracts with the Island's major processor, Cavendish Farms. This negotiating process is described in Chapter 3. In addition, the Council participates in national and international meetings involving the processing sector. In the Commission's view, the presence of the Prince Edward Island

Processing Council is vital in order to protect the interests of process growers.

Promotion

The Board carries out an extensive promotion program, partly financed by small government grants. In 1985-86, the cost of advertising and promotion amounted to approximately $400,000, including money for national promotion.[15] The promotion program has been criticized by some for having no definition of objectives; for misspending funds on activities which yield little return for investment; for having too much reliance on an advertising agency rather than using the Agriculture Department's resources; and for being too costly. Despite these criticisms, feedback from wholesalers seems to indicate a strong awareness of Island potatoes. In addition, there appears to be a strong awareness of Island potatoes amongst consumers in many markets. One must conclude, therefore, that the Board's promotional program is generally effective. Regardless of the point of view, the importance of explicit promotional objectives and an advertising strategy should not be dismissed. As well, evaluation measurements for promotion should be developed, such as increased sales and new customers. This would give a new commodity board an indication of the effectiveness of its promotion program, and provide to producers and dealers tangible proof that their promotion dollars are being well spent.

The benefits derived from promotional efforts may be more easily perceived by dealers than producers. The dealer directly observes the results in the marketplace. The producer observes from a greater distance. Therefore it may be that the composition of the Board, comprising a majority of dealers, weakens producer support that exists for market promotion.

Licensing And Marketing

The Board licenses all dealers in Island potatoes. A dealers' license can be obtained for $400.00. There are very few stipulations in the licensing agreement except to provide information, provide records if requested, and remit levy fees.[16] No product may be shipped off the Island without receiving a transportation number. In order to receive a number, the dealer must provide the Board with information on quantity, price, and destination of the product, and such information must be verified within seven days. The purpose of the transportation number is to prevent consignment selling; however, the most important by-product of the policy has been market information which allows the Board to monitor prices in many markets.[17] Even so, it appears the Board does little either to develop this aspect of its activities or disseminate the information.

The name "Potato Marketing Board" suggests that the Board carries on a marketing function, but there appears to be very little regulatory activity in this area. The Board did attempt to enforce minimum prices in the early 1980s but, as will be discussed in the following chapter, this effort was abandoned and the Board has not taken on the role since that time. It can be argued that the Board has forfeited its powers simply by not using them often and effectively. Even in the area of licensing of dealers, the Board has not applied stringent requirements; for instance, there are no bonding, facility, or proof of financial stability requirements.

The Board's composition hinders its ability to fulfill a regulatory function. While producers perhaps would like to see the Board intervene to protect their interests, dealers might wish not to have their freedom inhibited by regulation. It is evident to the Commission that an inability to satisfy the demands of two competitive groups has lead to the Board's limited role in the areas of marketing and licensing.

Effectiveness and Efficiency of the Board

The usual method of evaluating any organization is to make an assessment based on its objectives. Since the Board has no stated objectives of its own, the Commission is forced to fall back on the statement of purpose as indicated originally in the Temporary Plan. Section 2 of the plan states:

> The purpose of this plan is to encourage the production and marketing of high quality potatoes; to curtail the spread or development of serious potato disease; to eliminate unethical practices and to prevent unnecessary costs in the marketing of potatoes; to investigate and develop markets for Prince Edward Island potatoes; and to improve transportation and other marketing facilities.[18]

Strangely enough, this stated purpose does not seem to be reflected in the powers enumerated in the regulations. Nonetheless, the purpose has five major components, namely:

1. To encourage the production and marketing of high quality potatoes;
2. To curtail the spread or development of serious potato diseases;
3. To eliminate unethical practices and to prevent unnecessary costs in the marketing of potatoes;
4. To investigate and develop markets for Prince Edward Island potatoes; and
5. To improve transportation and other marketing facilities.

In terms of the purpose of the Temporary Plan, the Board can rightly claim to have been active to some degree. Its involvement in the Elite Seed Farm demonstrates a desire to produce quality potatoes. By acting as agent for the Disease Eradication Act (1974), it has shown a desire to limit the spread of disease. It has attempted to attack some practices defined as "unethical," by eliminating consignment selling. It has been active in market development through its involvement in Potatoes Canada and its other promotional activities. It has negotiated transport rates and attempted to promote the interests of the industry with respect to transport issues. Naturally, it can be argued that the Board could have done more in all these areas with the appropriate resources. No doubt more could also have been done to pursue producers' interests. However, judged against the objectives as stated in the Temporary Plan, it must be concluded that the Board deserves a medium-to-better mark in terms of effectiveness.[19]

Board efficiency can be measured by making comparisons with potato boards found in other provinces. Table 5C provides some comparative data on various provincial potato boards. The most apt comparison may be

TABLE 5C

COMPARATIVE DATA ON VARIOUS PROVINCIAL POTATO BOARDS

	P.E.I.	NEW BRUNSWICK	QUEBEC	ONTARIO	MANITOBA
No. of producers	650(685)	550-600	1000	487	150
Acreage '000 acres	70	51	49	32	43
Production '000 cwt.	17.85	11.18	9.26	7.36	7.79
Board Budget $ 000	1053	400	600	500	1000[1]
Staff Number	14[2]	7	4(+5)[3]	5+1	7[7]
Levy	7¢/cwt.[4]	5¢/cwt.	$42/ha[3]	8¢/cwt.[5]	n.a.
Cost/acre $	15.04	7.84	12.24	15.62	23.26
Cost/producer $	1620	696	600	1027	6666
Farm value/acre[6]					
1984	997.57	965.46	927.45	1175.68	786.00
1985	582.89	702.92	743.03	1074.13	'88.15

1. Budget includes packing operation but not packing staff.

2. Includes seed farm, with a net cost of $325.000 and 8 staff which no other Board has. Includes $128.000 in grants for a net figure of $625.000. On this basis, the P.E.I. figures are $962/producer and $8.93 per acre.

3. Staff for only producer federation. Levy cost equals 10c/cwt., based on 1986 yield. Growers also must buy shares at $10/ha and 10c./cwt. levy (total 15c/cwt.) to ship through Pomexpan. Pomexpan has a staff of 5.

4. Plus 3c/cwt. dealer levy.

5. 4 c/cwt. for processing potatoes.

6. Derived from potato acreage yield, production, and farm favlue, Potato Market Review, 1985-86, Crop Development Division, Horticulture Section, Agric. Can. p. 9, ISSN 00833-1324.

7. Excludes packaging.

with the New Brunswick board. Given that the bulk of New Brunswick potatoes is sold for processing, which has a lower associated levy, it is most appropriate to compare the operating costs of each Board on the basis of costs per acre produced in the province instead of by levy. The cost of operating the Island Board is $15.04 per acre, as opposed to $7.84 per acre in New Brunswick. This reflects a substantial difference; however, Prince Edward Island figures include the cost of operating the Elite Seed Farm, an expense not borne by New Brunswick producers. Even after the cost of the Elite Seed Farm is removed from the Board's total, the overall cost is still $8.93 per acre, approximately $1.09 per acre above New Brunswick's costs. In terms of staff, the Board employs more than any other provincial board, even when the Elite Seed Farm is not taken into account.

In the final analysis, the Board's operations are more expensive compared to those of New Brunswick. The extra cost may be explained by some additional representational activities undertaken by the Board, such as defending the industry at countervail hearings and lobbying against cost recovery fees.

The Board's organization raises some serious questions. During the Commission's public hearings, it was pointed out more than once that the Directors spend a considerable amount of time at the Board offices on University Avenue in Charlottetown. This observation is addressed by understanding how the Board organizes its work and by the allocation of responsibilities between policy makers (Directors) and administration (staff). In fact, there appears to be a strong overlap between policy and administration functions. The General Manager has no authority to employ or dismiss staff, while the limited supervisory power he does have may be undermined by Board members who also give instructions to staff. This multiple chain of command can only be termed chaotic and must lead, ultimately, to inefficiency.

Such inefficiency at the Board level is reflected in a number of ways. There is no annual work plan prepared by senior managers. There is no budget review process involving subordinate managers, to choose priorities and find ways of controlling costs (the Elite Seed Farm is an exception). There are no job descriptions to clarify delegation. There are no job evaluations tying salary to achievement objectives. There are no team meetings to develop shared responsibility, maximize involvement and commitment, and provide team support for organizational objectives. There is little opportunity for operational input into management. These factors, in combination with a lack of clear lines of command, point to organizational inefficiency.[20]

The organizational structure of the Board has several implications. The lack of clear delineation between policy and administration means that the Board of Directors is not focusing totally on policy matters. A review of Board minutes for the year 1985-86 reveals that a major portion of Board meetings are devoted to discussion of administrative matters instead of policy. Even more of the Board's time is consumed in reviewing background information which has not been provided in advance. In the Commission's view, Board members, who are basically volunteers with farm operations of their own to run, should not be bogged down in handling administrative detail, but should set overall policy direction and leave the administration to others.

This view clearly is shared by the Potato Producers' Association, which in its brief to the Commission's public hearings, stated: "We do feel, however, that all to often the Potato Marketing Board is to busy 'putting out fires' instead of spending their valuable time in determination of long term policy and direction."[21]

The involvement of the Board in administrative matters also raises the spectre of conflict of interest. A Board member who has an economic stake in the industry should not be giving administrative instructions on matters which may affect the economic interests of other farmers. While this is not to suggest that all Board members are manipulating their positions to their own advantage, it is important that conflict of interest not only be avoided, but be seen to be avoided.

Another major implication of the Board's organization is that there is no short-term, medium-term, or long-term planning, either at the policy level or the operational level. The underlying reasons are clear from the above discussion. The effect of this lack of planning is seen in the Board placing a premium on reaction to issues while often finding it difficult to meet gradual or sudden changes within the industry.

The Commission also would like to point out that the Board apparently has no internal mechanisms to consult with producers and canvass opinions. This responsibility is often taken on by the Potato Producers' Association which has limited resources. While the Commission does not question the efforts of the Association, it must be pointed out that it may act as a buffer between the Board and producers, hence contributing to a sense that producers have no direct input into the Board. This may help explain the feeling of alienation from the Board felt by some producers. While the Commission would encourage the Association to continue its activities, it would advise the new commodity board to develop its own producer consultation mechanisms.

The above findings on organization are of little surprise to the Commission. Many of these have been made over the years and were specifically dealt with in the Potato Marketing Board-Producer Association Study completed by Spatial Planning Incorporated in 1984. What does surprise the Commission is that little has been done to correct the situation. As a result, the current Board languishes with no clear-cut policy direction and an organizational structure already termed chaotic. That such a situation continues to exist is surprising. To blame the General Manager would be unfair, given that he has been denied the authority to hire and dismiss staff and that his ability to manage has been undermined by Board members giving directions to staff. Moreover, he was not hired as a professional manager and is not paid on a scale due a position of such importance. In the Commission's view, much of the problem lies with the Board of Directors who, by neglecting policy-making over the years, have not placed an emphasis on the professional operation of the Board.

- The Board as it is now constituted is in an untenable position. It is an organization which must contend with internal schizophrenia, attempting to serve the conflicting interests of two groups - producers and dealers. In many ways it has done a fairly reasonable job of holding the organization together by offering programs which meet the common interests of both groups (e.g., Elite Seed Program). In addition, it has facilitated programs such as the Advance Cash for Crop Payment Program, which is clearly in the producers' interest, and a Promotion Program, which is in the industry's interest, but which dealers will appreciate more. But, in the crucial area of regulating the market - integral to the role of a marketing agency - the Board has abdicated responsibility. As a result, it has been unable to articulate a clear position on such matters as supply management, and probably would not dare risk any bold efforts to put the provincial potato marketing house in order. In effect, the Board is hamstrung from within when dealing with the major issue of marketing, a situation likely to continue as long as the Board retains its current structure.

In fairness, it should be stated that the Board has strived to carry out its purpose as set out in the Marketing Act (1956), and deserves good marks on that account. However, in the Commission's view, these are inadequate objectives for a regulatory agency, given the statutory life and powers which have been provided the Board and given the challenges facing the Island industry. A new commodity board must be capable of meeting these challenges.

Any agricultural marketing organization is always subject to the legislative framework under which it operates. Potato marketing legislation will be discussed in the following chapter. Whether or not the recommendations in Chapter 6 are adopted, there are certain organizational issues which any future Board must confront. These certainly include the efficiency of operations and professional management.

RECOMMENDATIONS

The Commission makes the following recommendations:

1. That the new commodity board have a clear separation of policy and administrative functions.

2. That the new commodity board have clear lines of command to ensure accountability, and efficient allocation of resources.

3. That the new commodity board develop job descriptions outlining responsibilities for employees. Such descriptions should be used as the basis for bi-annual staff evaluations, and remuneration should be tied to evaluation results.

4. That the new commodity board develop planning mechanisms for budgeting, operations, and policy development.

5. That the new commodity board take every precaution to ensure the fair administration of its programs.

6. That the new commodity board upgrade the salaries attached to senior positions to ensure competent staff is obtained or maintained. The General Manager of the new commodity board should command a salary comparable to senior government employees ($50,000-$60,000 per annum) in consideration of the importance of the position and its attendant responsibilities.

7. That the provincial government provide funds for an independent management consultant to provide services to the new commodity board for the facilitation of internal organization.

8. That the provincial government provide on-going operational funds to the Elite Seed Farm in the amount of one-third of the annual operational cost or $150,000, whichever is less. Reductions in the price of seed from the Farm should not be allowed to occur as a result of this assistance.

9. That the provincal government provide on-going capital assistance to the Elite Seed Farm in the amount of $50,000 per annum, with provisions made for the Elite Seed Farm to carry capital assistance from one year to the next, if not completely utilized in any one year.

FOOTNOTES

1. Roygold Marketing Systems Ltd., Market Analysis of the P.E.I. Potato Industry, prepared for the Royal Commission on the Potato Industry (Ottawa: Roygold Marketing Systems Ltd., 1987), p. 89.

2. *Ibid*., p. 90.

3. *Ibid*., pp. 82-83.

4. Doane Raymond, "Auditor's Report," in The Prince Edward Island Potato Marketing Board Annual Reports and Financial Statement 1985-86 ([Charlottetown]: Prince Edward Island Potato Marketing Board, 1986), p. 4.

5. National Farmers Union, Royal Commission on the Potato Industry, Public Hearings, Vol. I, 4 February 1987 (Charlottetown: Royal Commission on the Potato Industry, 1987), p. 287.

6. Prince Edward Island Count Potato Association, *Ibid*., 29 January 1987, p. 97.

7. Prince Edward Island Potato Marketing Board, "Plant Disease Eradication," in The Prince Edward Island Potato Marketing Board Annual Reports and Financial Statement 1985-86, p. 1.

8. Agriculture Canada, "Administration Manual for Advance Payments for Crops Act," 2 July 1986, pp. 1-3.

9. *Ibid*., pp. 5-6.

10. National Farmers Union, *Royal Commission on the Potato Industry, Public Hearings*, Vol. I, 4 February 1987, p. 287.

11. Linkletter Farms, *Ibid*., 24 January 1987, pp. 253-254.

12. Atlantic Provinces Transportation Commission, *Ibid*., 3 February 1987, p. 5.

13. *Ibid*., p. 12.

14. Potato Processing Council, *Ibid*., Vol. II, 5 February 1987, p. 517.

15. Roygold Marketing Systems Ltd., p. 86.

16. Prince Edward Island Potato Marketing Board, "Application for Dealer's License," in *Royal Commission on the Potato Industry, Public Hearings*, Vol. II, 27 January 1987, p. 471.

17. Roygold Marketing Systems Ltd., p. 104.

18. *Marketing Act, Temporary Plan re Potatoes, Regulations* (R.S.P.E.I. 1974, Cap. M-4), Section 2, p. 2.

19. Roygold Marketing Systems Ltd., p. 104.

20. *Ibid*., p. 109.

21. P.E.I. Potato Producers' Association, *Royal Commission on the Potato Industry, Public Hearings*, Vol. II, 7 February 1987, p. 475.

CHAPTER 6

The Legislative Framework

The only official supervision of the elaborate marketing chain described in Chapter 3 is provided by the Prince Edward Island Potato Marketing Board, hereafter referred to as "the Board". The authority of the Board is derived from An Act Respecting the Marketing of Agricultural Products (R.S.P.E.I. 1974, cap. M-4), hereafter referred to as the Marketing Act (1956), and its accompanying regulations, entitled Temporary Plan re Potatoes, hereafter referred to as "the Plan". The Marketing Act (1956), and the Plan, constitute the legislative authority for the supervision of potato marketing in the province. This authority is complemented on the federal level by Potato Levy Orders under The Agricultural Products Marketing Act (R.S.C. 1970, Cap. A-7).

Section 5(1) of the Marketing Act (1956), reads as follows:

> Subject to Section 6, the Lieutenant Governor in Council by order may
> (a) upon request, establish plans for the control and regulation within the province of the marketing of any agricultural product designated in the order; and
> (b) constitute producer boards to administer such plans and vest in those boards respectively any powers considered necessary or advisable to enable them effectively to control and regulate the marketing of the designated agricultural products within the province.

Section 6(1) adds the requirement that any plan established under Section 5(1) shall not come into effect "until approved by a vote of sixty per cent or more of the producers engaged in the production of the designated agricultural product voting within the area to which the plan applies." The term "producer" is defined in paragraph 1(i) of the Act.

Section 6(3) of the Marketing Act (1956) permits the Lieutenant-Governor-in-Council to establish a temporary plan for any product but such a temporary plan shall remain in effect only until approved or otherwise by a vote of 60 per cent or more of the producers of the product. Such a vote must be taken not less than six months or more than eighteen months after the temporary plan has been established.

The Marketing Act (1956) accords the Board broad - indeed sweeping - powers. For example, Section 5(1)(b), permits the Lieutenant-Governor-in-Council, by Order to vest in a producer Board "any powers considered necessary or advisable to enable them effectively to control and regulate the marketing of the designated agricultural products within the Province." Section 7 sets out in a long but not exclusive list 24 specific powers that may be vested in any Producer Board, including the power to fix prices; to determine price spreads and dealer margins; to conduct pools for the distribution of all monies received from the marketing of the regulated product; and to seize, remove, and dispose of any of the product marketed in violation of any Board Order. For greater certainty, Section 7(u) accords the Lieutenant-Governor-in-Council "the power to make such orders, rules and regulations as are deemed necessary or advisable to control and regulate effectively the marketing of the regulated product."

In the Commission's opinion, the broad and sweeping language of the provisions of the Marketing Act (1956), especially the provisions as set forth in Section 7, probably allows for the establishment of virtually any plan approved by a plebiscite of producers.

In summary, the statutory authority for the Plan for the marketing of potatoes is the Marketing Act (1956). With one exception the Board, under the existing Plan, has all of the powers permitted by the legislation. The exception is the power to fix prices. By virtue of Section 11(g) of the Plan, the Board has the power to fix a minimum price, but not the power to fix a price.

Despite the apparent provision for rather broad and sweeping powers outlined in the Marketing Act (1956) and the Plan, both are flawed in principle and deficient in practice. A serious flaw in principle of the Marketing Act (1956) is the prohibition of supply management. Section 16(1) of the Marketing Act (1956) states: "Nothing in this Act shall be deemed to authorize a producer board or agency to restrict, prohibit or limit the production of any agricultural product." Such a provision, and the failure of the industry to recommend its removal, is in conflict with the thrust of current discussions by the Island industry for a national supply-management system, and probably should be removed immediately to assure the other parties that we are even bargaining in good faith. The Commission cannot avoid observing that, while many producers insist on producer control of the industry, the industry continues to operate under a legislative framework which prevents it from introducing a market practice which is now being widely discussed. In effect, this represents a serious limitation on producers' freedom of choice because the existing legislation removes from producers the ability to make a very fundamental choice.

The Marketing Act (1956) is further flawed in principle because it fails to provide any clear legislative guidance for procedures to be used by the Board in the exercise of its functions. For example, the legislation does not contain any provision for hearings, disclosure of information and confidentiality, notice, the right to counsel, nor provision for appeal of Board decisions. Presumably, an affected party can have his or her case re-heard or re-determined by the Board. But, in any event, the legislation makes no provision for either. Section 16(2) does provide that "No producer board shall, in the exercise of its functions under this Act, discriminate against any producer to the unjust advantage of any other producer or producers. This provision appears to be the only reference in the legislation to the kind of procedures the Board must adopt in its decision making process. The Commission is concerned that the absence of any clear legislative guidelines in the present legislation is fatal in an assessment of whether the present legislative framework adheres to either a constitutionally-guaranteed notion of fairness or fundamental justice as contemplated by Section 7 of the Canadian Charter of Rights and Freedoms and/or well established common-law doctrines of natural justice and fairness.

In the Commission's opinion, this concern is justified when measured against the financial significance to individuals affected by Board decisions, and where measured against the kind of sanctions available to the Board in the exercise of its functions. Section 17 provides that "Every person who fails to comply with any determination, regulation or order of a producer board ..., is guilty of an offence and, if no other penalty is provided, is liable upon summary conviction to a fine of not more than one thousand dollars and, in default of payment thereof, to a term of imprisonment not exceeding three months." In addition, a more far-reaching sanction - seizure of a dealer's license - is open to the Board under Section 11 of the Plan.

The Marketing Act (1956) is flawed in principle in another way. The only accountability placed upon the Board is to report to government. It is contained in Section 5(6) which requires the Board to "submit a monthly report to the Minister of Agriculture which shall contain an exact record of all receipts and expenditures by the producer board." There is no other means of accounting to the government, nor is there any provision for public interest overview. In this regard, the Minister was asked the following question at the public hearings of the Commission: "Getting back to the 56 Act, this I take it then that the Minister has no supervisory powers at all?" The Minister answered as follows:

> No, as a matter of fact there was an instance where since I became Minister of Agriculture I requested some information other than financial with respect to some prices and what have you. The Board indicated to me that type of information was confidential and they were perfectly within their rights, there was no authority, in other words for me to either request or expect that the information would be provided to me.[1]

It can be argued that accountability to the government and the producers is provided for in Sections 8 and 9 of the Marketing Act (1956). Sections 8 and 10 provide that the Minister shall call a plebiscite upon receipt of a petition for termination of a plan signed by not less than 10 per cent of producers entitled to vote. This is a cumbersome and awkward procedure and has only led to controversy and turmoil. Section 9 of the Marketing Act (1956) provides that the Lieutenant-Governor-in-Council may at any time call a plebiscite for the termination of a plan. While this provision gives the Minister an avenue of action, it is so fraught with political difficulties that it may rarely be used. It never has been used to this time. These sections of the Marketing Act (1956) do not provide for the kind of accountability that ought to be required of a producer board.

The accountability provided for in Sections 8 and 9 of the Marketing Act (1956) are rendered even more ineffective because of another flaw in priciple: there is no provision for the amendment of a plan. Sections 5, 8, and 9 provide for the establishment and termination of plans, but the Marketing Act (1956) and Plan are silent on the amendment of plans. An amendment can only be made by terminating one plan and establishing another. As the history of the industry shows, the industry and the Minister have more than once been paralyzed by the absence of an amending procedure. In 1957 a plebiscite to approve the Plan failed.[2] Consequently, the Plan may have been terminated by the Minister. But since the only alternative was to leave the industry in turmoil, the Plan was left in place. Thus, it can be argued that from 1957 until 1965, when a slightly different plan was approved by plebiscite, a marketing plan was in place which did not have the support of producers. No amendment was possible and no other new plan was recommended to the Lieutenant-Governor-in-Council. A more recent example of the problem is the plebiscite of 6 October 1986. Many producers wanted changes to the present Plan, but no amendment was possible. The only alternative was to terminate the present Plan. This allowed those opposing change to the present Plan to argue that the existing Plan was better than no plan at all. Consequently, even reasonable and sensible arguments for change never received objective, dispassionate, and fair debate because the future was unknown. The issue in the plebiscite was reduced to a single question and, in that process, the issue discussed became the plebiscite itself, not the policy and legislative framework desirable for the marketing of Prince Edward Island potatoes.

The plebiscite of October 1986, was indeed a graphic and dramatic illustration of the paralysis inflicted on the industry by the present Plan. The question on the ballot was: "Do you favour the termination of the termporary plan re potatoes?" In its August 1986 Newsletter the Board said: "A 'yes' vote to this question means the potato organization which has served this industry for 30 years will be eliminated." The same Newsletter said: "A 'yes' vote will eliminate the plan, thus removing the Board, and making room to establish an N.F.U. Commission."[3]

Both statements identify precisely the problem. Producers were asked to vote for the Board, as it is, or for no Board at all, although the spectre of an NFU - controlled Commission as the alternative was raised. Nothing more clearly illustrates the paralysis imposed on the industry by the present legislation.

During the same plebiscite, an unidentified "Committee of Concerned Potato Growers" placed an advertisement in the local newspapers which read in part as follows:

> Issue #2
>
> Growers stand to make money on their potatoes this year - if the marketing structure is in place to do its job.
>
> A "yes" vote in the plebiscite is an invitation to another year of financial trouble. There is no alternative to put in place for marketing this year's crop. Growers need the cash this year's crop can bring.[4]

This statement also identifies precisely the problem. There was no alternative to the existing plan.

On the other hand, the Board in the Newsletter referred to above, did identify the problem with the following statement: "Granted, there may be need now for amendments to the Plan under which we operate but that is not what the plebiscite question asks."[5]

The problem was, and remains, that no other question could have been placed on the ballot. Amendments could not have been proposed on the ballot. The issue was: the present Plan or no plan. The case can be made that the inflexibility of the present legislation makes the Board more an instrument of control for those who seek no change than an institution willing and able to change over time as political and economic factors dictate.

This point was discussed with the Board at the public hearings of the Commission. The Commission pointed out that Section 4(2) of the Plan states that not more than three Board members shall hold dealers' licenses. The Commission asked why there should be more than three dealers on the Board, and whether the presence of a majority of dealers on the Board affected its perception by the vast majority of growers who are not dealers. Part of the exchange was as follows:[6]

Mr. Don Anderson: Mr. Chairman, I believe that one has to look at the evolution of the potato industry from the time that Act was written and the operation of the potato industry today and the changes that have transpired. Now, I think the Chairman has mentioned in his preamble here that there is need for some housekeeping and indeed I think that is one that has to be defined. He mentioned that the definition of a producer. In another portion of the Act, it also states that a producer is, 'produces five acres of potatoes.' Now, things have changed so much in those years. We have gone from a hand operation to a mechanized operation and I think it is generally accepted throughout the industry that the units have gotten larger and there is a perception on behalf of some people that they can market their own potatoes satisfactorily as the next person. And we have gone, that system has crept up on us, if you will and the industry has accepted that principle. There's need for some housekeeping. I think you've identified an area that needs to be some....

Commissioner: Well, I recognize there are changes, Mr. MacDonald and that may well be the case that this is the way this has evolved. I guess one other question, I think Mr. MacArthur has a question on this. Has the Board asked for that legislation to be appropriately changed to cover that?

Mr. Elmer MacDonald: No.

Commissioner: O.K.

In other words, not only is the Plan incapable of amendment, but changes to the legislation itself to keep pace with acknowledged changes in the industry have not been requested.

Like the Marketing Act (1956), the Plan is also flawed in principle and deficient in practice. As stated above, while the Plan has most of the powers permitted by the legislation, other than those of price-fixing, its power is vitiated in a serious way. Secion 19 of the Plan states:

> This plan shall not affect any agreement entered into between a producer and a dealer nor shall any person who is not a holder of a license under this plan be deemed unable to enter into any agreement for the sale and purchase of potatoes.

Such a provision renders the entire Plan null, void, and ineffective, and one can only wonder why such a provision was inserted. While there is no evidence that this provision is much used, the Commission is of the opinion that it should not be part of any plan since, potentially, it renders the Board and the Plan powerless to control any aspect of the marketing of any Prince Edward Island potatoes. This section would inevitably come into play in the event that a Board Order or the enforcement of an Order went before the courts.

While the Board does have most of the powers permitted by the legislation, by its own admission it plays no significant role in marketing. It is clear to all that the Board does not buy and sell. Its only market function is its power to fix and enforce minimum prices. Again, by its own admission, the Board has abandoned all efforts to enforce minimum pricing orders although it would like the ability to do so. At the Commission's public hearings, the Board responded as follows to questions on this subject:[7]

> Commissioner: ... Now, does the Board, is the Board of the view that it ought to have whatever administration it needs to enforce such orders [minimum price orders] so that it could use them? Or does it not wish to have the resources to administer them?
>
> Mr. Elmer MacDonald: There are times when a minimum price might be seen to be a benefit, however, having said that, enforcing it is a major task.
>
> ....
>
> Commissioner: I wasn't making a case that you ought to be setting minimum prices. I was asking a question. You say here, you tried it, you can't do it. My question is, would you like to be able to do it?
>
> Mr. Elmer MacDonald: Yes.
>
> Mr. Don Anderson: Yes.

Clearly, the opinion of the Board is that it wishes to enforce minimum pricing orders, but cannot do so with the resources at its disposal.

On the same subject, the Potato Producers' Association responded as follows when asked if the Board should enforce minimum pricing orders:

> I guess the position of the Producers' Association is the fact that, I guess maybe it's no harm for them to have the resources but we don't think they should do it, because it is a system that just can't be policed, it makes honest people crooks. Everybody beats the system every which way they can and thats why the National Agency is proposed the way it is so that they don't have to get into that type of policing, there is cheating done in so many different ways and kick-backs under the table stock [sic], extra potatoes on the load and you name it, I'm sure a lot of us don't even have any imagination on how the system is beat. But it is beat, we just do not support minimum pricing board orders.[8]

It seems to the Commission that the Producers' Association's position is that a national agency should be put in place. From other comments of the Association, it is clear that they support a national agency because it is a solution superior to any local or provincial marketing system. It is also clear to the Commission, however, that the Potato Producers' Association does not support minimum pricing orders only because they cannot be enforced and participants in the industry will find ways "to beat them." The Association says that the attempt to enforce them will make "honest people crooks." This statement by the Potato Producers' Association is a clear indication to any observer that the Island potato industry fails to act cohesively and with a shared and pre-determined objective in mind. It is a clear indication that there are those who will not protect the integrity of a self-imposed marketing system. It is a clear indication that the Board has not been able to police the industry. It is clear evidence that the potato industry needs a marketing structure that all sectors support or at least respect.

The Federation of Agriculture also supports enforcement of minimum pricing orders under certain circumstances. At the Commission's public hearings the Federation was asked the following question:[9]

Commissioner:	... I guess what you are saying is that there may be times when the product is all coming to market, and perhaps too much of it and it shouldn't be and that depresses the price and therefore at that stage you ought to establish minimum prices, is that correct?
Mr. Harold Godfrey:	Correct, yes.

The position of the Federation of Agriculture on this issue is very clear.

The NFU was not asked to respond directly to the desirability of minimum pricing. Its view was that the Board lacks the power to enforce such orders because of Section 19 of the Plan. The Commission, however, is satisfied that, short of a more comprehensive national or provincial marketing system, the NFU supports a more active marketing board.

The Commission is also satisfied that the obvious inability of the Board to enforce its own orders renders the Board deficient in practice.

At the same time, the Commission must register its opinion that the Board presently does have the authority to enforce its own Orders. The nature and scope of this authority was raised in 1983 when the Board made its last attempt to enfore minimum pricing Orders. At that time, the Board formed a belief that its minimum pricing Orders were being violated by producers and/or dealers in the regulated sector. The Board was faced with the problem of how to secure evidence to substantiate that belief.

Instead of using its powers under Section 7 of the Marketing Act (1956), the Board approached the RCMP and the provincial Department of Justice to investigate the alleged violations and to acquire the necessary evidence on its behalf. In the Commission's opinion, the involvement of the RCMP and the Department of Justice was an unnecessary step; the Board had the authority and indeed the responsibility to obtain evidence before seeking the assistance of the RCMP and, ultimately, a prosecution. The Board could have utilized its power, for example, to seize potatoes marketed in violation of any Order of the Board, and its power to inspect the books and premises of suspects. Furthermore, the Board had a severe penalty at its disposal that did not involve a criminal prosection: that of revoking the dealer's license provided by Section 11(d) of the Plan.

The inertia exhibited by the Board in this attempt to enforce its own Orders is compelling evidence of the difficulty the Board faces in policing its own members. In theory, the Board clearly is vested with sufficient authority to police its members. But, the legislative framework is seriously deficient in that it fails to provide an enforcement scheme or program for the exercise of Board powers. The Board, for example, has no investigative-enforcement division in place to supervise compliance with its Orders. In this regard, the Board in 1983 was the equivalent of a lame duck. The only alternative open to it, faced with the urgent problems created by violation of Board Orders, was to act in a piecemeal fashion and attempt to devise an enforcement procedure virtually over night.

Not surprisingly then, the Board approached the Department of Justice in March 1983 and requested that officials in the Department advise the Board of an appropriate enforcement program. The Department of Justice responded by indicating that, since the Board was charged with the supervision of a self-regulating sector, it was responsible for its own enforcement program. Flowing from this position, the RCMP also declined involvement in enforcement unless the Board could provide the police with some evidence of criminal activity. As a result, the alleged violation of Board Orders was not pursued and the matter was smothered by the issue of which body was responsible for enforcement of Board Orders and regulations.[10]

The Commission is of the opinion that, while the Board had the authority and responsibility to investigate the matter, as indicated earlier, it did not in actual fact possess the appropriate resources or know-how to conduct a proper investigation. Further, this state of affairs can best be attributed to both the legislative anomalies of the Marketing Act (1956) and the Plan, and the unwillingness of the Board to exercise vigorously its functions when necessary.

The public's perception of the fairness of any regulatory agency, especially by those subject to its regulations, greatly affects its effectiveness, and the public's perception of its fairness is greatly influenced by its membership. The membership of the Board in recent years has weakened its legitimacy in the minds of many producers, and the Commission recommends changes.

All agree that the Board was to be a producer-controlled Board acting in the interests of the producers.

Section 4(2) of the Plan states:

> The Potato Board shall consist of nine members, six of whom shall be bona fide farmers elected in accordance with subsections (3) and (4) representing potato producers and three of whom shall be potato dealers elected in accordance with subsections (3) and (5) representing potato dealers.

Section 1(b) of the Plan defines "bona fide farmer" as follows:

> ... bona fide farmer" means any resident whose chief occupation is that of a primary agricultural producer who grows an annual average of at least five acres of potatoes and who is not engaged in the public assembling or shipping of farm products or produce in a commercial way.

While one can understand the attempt to reconcile the interests of producers and dealers in a single commodity board, the membership of the Board has greatly affected its effectiveness. The Board in recent years has been dominated by dealer interests. In 1986, six of the nine members of the Board possessed dealer licenses, or held an interest in organizations which held dealer licenses, while the clear intention of the legislation and the Plan was that six of the nine members not hold dealer licenses.

The membership of the Board as described above creates the image of a board that does not necessarily act in the interests of the producers. At the public hearings the Commission was told that a board with such membership may not act, or at least may not be seen to act, in the interests of the producers, because there is a real or perceived conflict between the interests of producers and dealers.[11] The Commission accepts such an argument. A producer-dealer who is a board member must always choose to act either in his interests as a dealer or as a producer. Many times the interests will be similar, but often they will be different.

The Commission is also of the view that there is not sufficient separation of the policy and administrative functions of the Board. This subject was discussed more fully in the previous chapter. Suffice it to say here that the Commission too often has heard from present and past Board members, and from others with no Board experience, that elected Board members are too involved in administrative decisions. Thus, "potato politics" are created. Participants in the industry go to their "elected representatives" on the Board to influence what should be purely administrative decisions, and all too often the Board, of its own volition, becomes involved in routine administrative decisions.

An examination of the activities of the Board as revealed in the Board Minutes confirms the opinion of the Commission. These minutes of Board meetings show that very little time is devoted to policy making, marketing strategies, and industry direction. Board members' time was taken up by matters associated with the numerous programs administered by the Board. In any new organization, this must be corrected. Board members must be, and be seen to be, policy makers and custodians of the industry.

As a result of these deficiencies, the only real marketing and industry strategy is that of individual dealers. While the Commission does not question their efforts or their dedication, their interests cannot be those of the industry as a whole. The result is a perceived lack of leadership from the producer side of the potato industry. No marketing strategy exists. There is no industry strategy other than to expand production. There is no initiative to develop a long-term plan, no long-term strategy, no market objectives, no planned production objectives, and consequently no vision for the industry - hence the present continuing division, controversy, and turmoil in the industry. The industry wants to look to the Board for the leadership that is lacking; but the Board is so divided from within, so busy with administrative functions, and so lacking in resources, that it lacks the legitimacy and the collective will to be an effective policy-making and marketing instrument.

It is easy to examine and judge the Board, which is recognized as speaking for the industry, and in many ways is its showcase. Its members are dedicated and individually successful. The Board's difficulties are the industry's difficulties and can only be resolved by those who make up the industry. It must also be recognized that, judged by other standards, the Board is quite successful.

Section 2 of the Plan reads as follows:

> The purpose of this plan is to encourage the production and marketing of high quality potatoes; to curtail the spread or development of serious potato diseases; to eliminate unethical practices and to prevent unnecessary costs in the marketing of potatoes; to investigate and develop markets for Prince Edward Island potatoes; and to improve transportation and other marketing facilities.

To achieve this purpose the Board administers a number of programs and engages in a number of activities, and these were discussed in the previous chapter. Suffice it to say here that the Board administers the Plant Disease Eradication Act (1974) and manages the Elite Seed Farm; engages in potato promotion programs; participates in international trade discussions; negotiates transportation rates, and provides assistance to the Potato Processing Council. Consequently, judged by its purpose as set out in Section 2 of the Plan, the Board can be said to be fulfilling its purpose and doing it quite well. In fact, one might wonder why the Board was given such broad powers to perform a marketing function when its stated purpose does not even mention product price or the required marketing organization.

Potatoes are the only commodity marketed under the Marketing Act (1956). Two other statutes govern the marketing of agricultural products in the Province. The most important, and the one under which all commodities except potatoes are marketed, is the Prince Edward Island Natural Products Marketing Act (R.S.P.E.I. 1974, cap. N-2) passed in 1969 and hereafter referred to as the NPMA (1969).

The NPMA (1969) is a piece of legislation very different from the Marketing Act (1956). The NPMA (1969) establishes a Marketing Council with broad powers to supervise commodity groups, commodity boards, and marketing commissions, all of which may be established under the legislation. Essentially, the NPMA (1969) is a better legislative instrument for the marketing of agricultural products.

A commodity group established under Part II A of the NPMA (1969) is the least structured of the three organizations. It is little more than a voluntary organization of the producers of a commodity for the purpose of exchanging information, promoting better means of production and marketing, and promoting the use of the commodity. A commodity group may impose levies for the accomplishment of its purposes, but in no case shall such levies be mandatory. A commodity group performs no marketing function whatsoever.

A commodity board established under the NPMA (1969) is a more structured organization and is, or may be, vested with a marketing function. The legislation permits the Lieutenant-Governor-in-Council to vest in a commodity board all the necessary powers to control all aspects of the marketing of the product. A commodity board shall be composed of producers of the commodity elected by a majority of producers in a manner prescribed by regulation.

A marketing commission is the most structured and most centralized of the bodies permitted by the legislation. The Lieutenant-Governor-in-Council may vest in a marketing commission all the powers permitted to a commodity board. The major difference between the two is that a marketing commission is appointed by the Lieutenant-Governor-in-Council and a board is elected by producers. Marketing commissions shall be composed of three persons appointed by the Lieutenant-Governor-in-Council.

All three organizations described above may be constituted by the Lieutenant-Governor-in-Council on the recommendation of the Marketing Council. The Marketing Council shall consist of not less than three and not more than eight persons who are appointed by the Lieutenant-Governor-in-Council and who are knowledgeable and experienced in the marketing of natural products. The term of office of members of the Marketing Council shall be three years. Members of the Marketing Council shall be paid such salary and given such remuneration for expenses as the Lieutenant-Governor-in-Council may establish by the Order-in-Council. The Marketing Council is vested with broad powers to "recommend to the Lieutenant Governor in Council the establishment, amendment and revocation of plans for the marketing of natural products and the constitution and powers of commodity boards or of marketing commissions to administer such plans." In addition, the full powers of the Marketing Council are written in Section 3(5) of the legislation as follows:

> (5) The Prince Edward Island Marketing Council may:
>
> (a) investigate, arbitrate, adjudicate upon, adjust or otherwise settle any dispute between producers, processors, distributors or transporters of natural products, or between any two or more of such classes of persons, or between a producer and a commodity board, marketing commission or commodity group;

(b) investigate the cost of producing, processing, distributing and transporting any natural product, prices, price spreads, trade practices, methods of financing, management, grading, policies and other matters relating to the marketing of a natural product;

(c) recommend any plan to the Minister;

(d) empower a commodity board or a marketing commission to borrow money for such purposes and in such amounts as the Prince Edward Island Marketing Council may determine and to give any person, as evidence thereof, a promissory note signed by the chairman and secretary of the commodity board or of the marketing commission;

(e) inspect the books, records and premises of any person producing or otherwise dealing in or with a regulated product or any person suspected thereof;

(f) stimulate, increase and improve the marketing of regulated products by such means as it may deem proper; and

(g) do such acts, make such orders, and issue such directions as are necessary to enforce the due observance and carrying out of the Act and the regulations or any plan.

In addition, Section 3(7) of the NPMA (1969) vests in the Marketing Council the power to recommend to any commodity board or marketing commission the amendment, variation, or repeal of any order or decision of a commodity board or marketing commission. Where a commodity board or marketing commission rejects such a recommendation, the Marketing Council may refer the recommendation to the Lieutenant-Governor-in-Council.

The above provisions of the NPMA (1969) vest in the Marketing Council the authority to recommend to the Lieutenant-Governor-in-Council the establishment, termination, or amendment of any marketing plan, as well as the authority to recommend to a commodity board or a marketing council and subsequently to the Lieutenant-Governor-in-Council the amendment, variation, or repeal of any order of a commodity board or marketing commission. Such powers prevent the paralysis of an industry which may be in turmoil, and avoids the potential consequent damage to the Island's economy.

The NPMA (1969) also provides for the necessary and proper accountability required of such regulatory agencies. Section 3(9) of the NPMA (1969) provides that the Marketing Council "shall, at the end of its financial year, make a report to the Minister of the Crown designated by the Lieutenant Governor in Council of its transactions during the preceding financial year and this report shall contain such particulars as the Lieutenant Governor in Council may prescribe; a copy of each annual report so made shall be transmitted to the Legislative Assembly when in session or within fifteen days of the commencement of the next regular session of the Legislative Assembly." This section, and the preceding ones, gives the accountability necessary for a regulatory agency, and allows the Lieutenant-Governor-in-Council and the public to acquire the information necessary for the protection of the public interest.

Part IV of the NPMA (1969) also provides for a fair and adequate appeals procedure. Section 7(1) of the NPMA (1969) provides for the appointment by the Lieutenant-Governor-in-Council of an "Appeals Tribunal" composed of two persons who are knowledgeable in organized agricultural marketing, and one public accountant. These persons shall not be members of the Marketing Council, a commodity board, or a marketing commission. When any person deems himself or herself aggrieved by any order, direction, or decision of a commodity board or a marketing commission he or she may, within thirty days of the making of such order, direction, or decision, ask the commodity board or marketing commission to reconsider. Such requests shall be heard within thirty days but, at the behest of the petitioner, the commodity board or the marketing commission may adjourn the hearing for such periods of time as is deemed just. Where any person feels aggrieved by the results of the commodity board or marketing commission's reconsideration, the person may appeal to the "Appeals Tribunal" within thirty days of the making of the appeal decision, and such appeal shall be heard by the "Appeals Tribunal" within 30 days of notice of appeal. The decision of the "Appeals Tribunal" in all such cases shall be binding on all parties and there is no appeal from such decision.

Section 8(2)(b) of Part IV of the NPMA (1969) also provides for a similar appeals procedure from decisions of the Marketing Council, and in such appeals the decision of the "Appeals Tribunal" shall also be binding on all parties and shall also be final.

The third statute governing the marketing of agricultural products is An Act Respecting the Marketing of Agricultural Products (R.S.P.E.I. 1974, cap. A-6), first passed in 1973, and hereafter referred to as the NFU Act (1973).

Section 3(1) of the NFU Act (1973) permits the National Farmers Union to request the Lieutenant-Governor-in-Council to approve standards of eligibility for producers who may vote in a plebiscite to determine the acceptance or rejection of any marketing plan proposed by the National Farmers Union. If the Lieutenant-Governor-in-Council approves the requests of the National Farmers Union under Section 3(1), the National Farmers Union shall submit the proposed plan to every registered producer and may request the Lieutenant-Governor-in-Council to approve the holding of a plebiscite to determine the acceptance or rejection of the plan. If the Lieutenant-Governor in Council approves the holding of a plebiscite, the result of such plebiscite shall be determined by a simple majority of the registered producers voting in the plebiscite. If the plebiscite succeeds, Section 9(1) of the NFU Act (1973) states that the Lieutenant-Governor-in-Council may establish the proposed marketing plan, and may appoint a bargaining agent for the registered producers. Such bargaining agent shall consist of four persons, three of whom are to be registered producers appointed by an executive of a local of the National Farmers Union, and one person who shall be a registered producer appointed by the national office of the National Farmers Union and who shall be chairman.

Where a marketing plan has been approved as described above, Section 12(1) of the NFU Act (1973) provides that the Lieutenant-Governor-in-Council may establish a body corporate to be known as a marketing commission to administer and implement the plan. The marketing commission shall be composed of not less than three or more than five persons, each of whom shall be nominated by the National Farmers Union. If a marketing commission is established by the Lieutenant-Governor-in-Council, Section 13(2) of the NFU Act (1973) states that the marketing commission shall enter into collective agreements with the bargaining agent respecting the policies or practices employed by the marketing commission in carrying out its powers. Section 14 of the NFU Act (1973) requires a marketing commission to submit an annual report to the Minister containing any information the Minister may require, and such report shall be tabled in the Legislature.

The Commission fails to see the efficacy of, or the necessity for, three pieces of legislation to govern agricultural marketing in the province. There should be only one such statute, and the NPMA (1969) is by far the superior statute. The NPMA (1969) provides an effective means of responding to the current situation in the Island potato industry.

The deficiencies of the Marketing Act (1956) have been discussed at some length. The lack of accountability, the lack of a procedure to amend a plan, the prohibition on supply management, and the absence of an appeal procedure, are deficiencies which must be addressed. Even if the Marketing Act (1956) were corrected by way of amendment, its history, and that of the Plan constituted under it, have been embroiled in so much turmoil and controversy that it is in the best interests of the industry to make a new start. It would be a new start, but not necessarily a "new world" as some fear, which would build on the accomplishments of the industry, learn from the experiences of the past, and recognize the changes in the industry and in the economy of the past 31 years. The Marketing Act (1956) ought to be repealed.

The NFU Act (1973) is not an acceptable alternative. It has been used only once in the past and had an unsuccessful tenure. Moreover, it was passed under very special circumstances in 1973. The Commission does not anticipate that it will be used in the future. The NFU Act (1973) essentially turns over the marketing of a product to a single agricultural organization which would bargain with itself for the price of the product. While the Commission recognizes the discontent and frustration with the present marketing system which produced the NFU Act (1973), the Commission also recognizes that it is not a viable alternative to the existing system. Given the present state of the organization of the agricultural community, the use of this Act would undoubtedly lead to more acrimony and controversy. The NFU Act (1973) ought to be repealed at the next session of the Provincial Legislature.

As the discussion illustrates, the NPMA (1969) provides or allows for all the necessary and essential elements of any marketing plan, including an appeals procedure, a means of amending a plan, a proper and adequate means for public interest overview, and no prohibition on supply management or any other marketing instrument producers may agree upon, or which may be recommended by the Marketing Council. The NPMA (1969) is similar to legislation in all other provinces and in most Commonwealth countries. Consequently, most of its contentious provisions have been tested and upheld in courts of various jurisdictions.

The Commission is aware that some industry members are reluctant to change the present legislation. Mr. Bertram Webster, president of the Potato producers' Association, relayed this reluctance to the Commission at its public hearings: "... there is people with pretty strong feelings about the [Marketing] Council, The powers of the Council in the 69 Act, that type of thing."[12] Don Anderson, General Manager of the Board, stated that "we think it's important enough that we report directly to the Minister" and "the newer legislation [NPMA (1969)] gives more control to government."[13] The Commission believes these feelings are based on unfounded fears of new legislation.

One such fear is that the industry's direct access to government will be lost because the Marketing Council will stand in the way. This fear is unfounded. It is unlikely that any Prince Edward Island government will refuse a hearing to an industry of such importance as the potato industry. Moreover, a Marketing Council with appropriate supervisory powers can bring about a better spirit of co-operation and improved means of communication with government. A Marketing Council can provide to the industry's marketing arm assistance and advice, which it now does not have and may need. The Marketing Council can be a means of resolving disputes before they become contentious and "political" issues.

The powers of the Marketing Council to "investigate, arbitrate, adjudicate upon, adjust or otherwise settle any dispute between producers, processors, distributors or transporters of natural products, or between any two or more such classes of persons, or between a producer and a commodity board, marketing commission or commodity group" should be welcomed by the industry. Had such a mechanism for co-operation been available in the past, this Royal Commission might not have been necessary. The authority of the Marketing Council, vested with the power of a Commissioner under the Public Inquiries Act

(R.S.P.E.I. 1974, Cap. P.30) to investigate prices, price spreads, trade practices and other matters, and to inspect the books and records of participants in the industry, should be of assistance to the industry and its commodity board in enforcing its own orders (which it now says it cannot enforce, but would like to enforce) and should help the industry to ensure the fairness of marketing practices.

There are also those who fear government intrusion into the industry under the NPMA (1969). The opposite would be the case. The industry at the moment has no protection from direct government intervention. There is no buffer. The government can stand by helplessly, terminate the present plan, or appoint a Royal Commission to intrude even further, of necessity, into the industry. Fear of government intrusion is lessened by the NPMA (1969) because the Marketing Council is a buffer, and the industry would be provided with a more effective means of resolving its own difficulties.

An alternative proposed by some is a completely new statute. The Commission rejects this alternative. A new statute should be similar to the NPMA (1969) and there seems to be no need to increase the bureaucracy surrounding the agricultural industry in Prince Edward Island by passing another statute. Therefore, the Commission recommends that the potato industry be placed under the NPMA (1969).

It is recognized that repealing the Marketing Act (1956) and placing the industry under the NPMA (1969) may create logistical problems. If not properly orchestrated an "interregnum" could be created when, for a period of time, no plan for the marketing of potatoes would be in place. To avoid this difficulty, the Marketing

Council should be asked to prepare and recommend to the Lieutenant-Governor-in- Council a marketing plan and a "provisional" commodity board to be put in place simultaneously with the repeal of the Marketing Act (1956). The authority of the Marketing Council to recommend any plan and to appoint a provisional board is contained in the provisions of the NPMA (1969) and Regulation 10 of the Marketing Council regulations pursuant thereto.

As soon as practicable after a provisional commodity board is put in place, the Marketing Council, in consultation with the Potato Producers' Association and the provisional board, should arrange for the election of members to the commodity board as required by Part II of the NPMA (1969). As soon as members are elected to the commodity board, the commodity board and the marketing council should begin discussions leading to the confirmation, termination, or amendment of the plan then in place. When such discussions are completed, a plebiscite should be held on the plan which results from the discussions. This process should be completed within eighteen months of the appointment of the provisional commodity board.

While the process just described meets the legislative requirements to implement a new marketing plan, the vital issue is the nature of a new plan. Any new plan, and the commodity board established by it, should have all of the powers permitted and all of the responsibilities imposed by the NPMA (1969). But several of the essential elements of any marketing plan have been subjects of contention in the potato industry. These include the appropriate membership of a commodity board (producers and/or dealers), appropriate geographical representation, the power or lack thereof to fix prices, and the definitions of producer and dealer. The Commission was urged by many in the industry to address and hopefully resolve some of these issues.

Certainly the most contentious, and probably one of the most important, of the essential elements of a marketing plan is the definition of a producer. Under the existing legislation and plan there are three definitions of a producer. The Marketing Act (1956) defines a producer as a person "engaged in the production of any agricultural product." The existing Plan defines a producer as any person "who grows potatoes on his own lands or on land owned by others in the regulated area and markets such potatoes from the Province of Prince Edward Island." The existing Plan also defines *bona fide* farmer as any resident "whose chief occupation is that of a primary agricultural producer who grows an annual average of at least five acres of potatoes and who is not engaged in the public assemblying or shipping of farm products or produce in a commercial way." The existing Plan further defines a "person" to include "an association, corporation, firm or Partnership." While a careful reading of the Marketing Act (1956) and the Plan do clarify the terms, the use of a variety of terms and definitions contributes to confusion, especially when the question arises of eligibility to vote in plebiscites. The matter is further compounded because the existing Plan also defines "registered producer" as "a producer who has been registered with the Potato Board." The Commission hastens to add that the problem does not lie with those who draft the legislation, but with the industry which has failed to resolve the issue.

A graphic illustration of the difficulty was the plebiscite of October 1986. The first Order-in-Council (EC389/86) authorizing the plebiscite added new definitions of "person," "person engaged in the production of potatoes," and "production unit." But basically, the Order-in-Council granted every potato farm operation one vote. After some controversy in the industry, Order-in-Council 389/86 was changed by Order-in-Council 448/86 in order to give not only every corporation, partnership, co-operative, syndicate or other business group a vote in the plebiscite, but also to give a vote to each person eighteen or more years of age who held shares in, or had an interest in, such corporation, partnership, co-operative, syndicate or other business group.

It is easy to be critical of the industry's failure to resolve this issue, but one must also recognize that it is a difficult and complex subject. The subject does, in fact, go to the very roots of the democratic and judicial process. It raises questions of the equality that should exist between large and small producers, of where "political" power should reside, of the rights of the individual versus the rights of corporations, and of the principle of one man-one vote.

The Commission suggests that the subject can be simplified if the primary focus lies with the definition of a production unit instead of with the definition of a producer. Rights in the industry belong to the production unit and not necessarily to all individuals associated in some way, however tenuous, with the production unit. Such an approach would also require a definition of a farm unit or a farm operation.

"Farm unit" ought to be defined as a single tract of land or a number of separate tracts held under the same or different tenures and operated as a single unit for agricultural purposes.

The alternative for the definition of a "potato" production unit are as follows: 1) any farm unit which grows potatoes; 2) any farm unit which derives a certain percentage of its income from potato production, often defined as 51 per cent or more of income; and, 3) any farm unit which grows a minimum acreage of potatoes, often defined as five acres.

For obvious reasons, a production unit cannot be any farm unit which grows potatoes. If such were the case, a home gardener or a market gardener could be a production unit with a role to play in the industry. Neither should the definition of a production unit be based on the percentage of income of the farm unit derived from the production of potatoes. Such a definition would discourage the diversified farm units which Prince Edward Island governments, many economists, and agricultural experts promote and encourage. The Commission can only come to the conclusion that a production unit should be defined as any farm unit which grows a minimum of five acres of potatoes. It is possible to debate whether the minimum acreage should be five acres, or some smaller or larger amount. But such a debate leads nowhere. The prime concern should be those persons or farm units who may be involved in some other form of agriculture, but who also wish to grow some potatoes as part of a mixed farming unit. The requirement that a production unit grow a minimum of five acres seems reasonable.

Only one other qualification needs to be added. A production unit ought to be required to have the necessary land, buildings, and equipment to carry on the activities of the production unit, or the activities of the production unit in conjunction with the other activities of the farm unit, without any contribution from any other production unit. Such a qualification is necessary to eliminate those persons who may acquire, or be granted, five acres of land on which to produce potatoes for the sole purpose of acquiring the rights of a production unit.

It goes without saying that a production unit should have a right to vote on matters affecting the industry. The difficulties are created because many production units are not natural persons, but often are other legal business entities composed of family members, such as spouses, sons and daughters, or brothers and sisters (e.g., what often is referred to as the family farm). Other production units may be legal business entities not involving family members but which may include "silent" partners who are not actively engaged in the business of the production unit. In other cases, persons actively engaged in a production unit may be so-called "part-time" farmers who derive part of their income from off-farm employment.

The variations of legal business entities which are production units are endless. Consequently, unless one were to write a large volume of regulations, a precise, legal, or scientific definition of "producer" may not be possible. The one, and only one, which may be possible is that a producer is a production unit and entitled to one vote. Such a definition is clear and precise and cannot be subject to dispute. Such a definition may also be the soundest in principle. Any other definition allows production units to organize their business affairs in such a way as to maximize their voting power, and disputes over the "voters list" would continue. The Commission, however, senses that such a definition is unacceptable to the industry.

The Commission is of the opinion that a definition of producer is unnecessary if rights and privileges are seen as belonging to the production unit. Consequently, the Commission avoids the definition of producer and, for the purposes of voting, recommends that a production unit have one vote, but no production unit shall have more than three votes. Such persons to be eligible to vote ought also to have a minimum equity interest of 10 per cent in the production unit and be actively engaged in the on-farm production activities of the production unit or the farm unit. In all cases, the production unit shall register with the appropriate authorities the names of those persons authorized to vote for the production unit.

The argument can be made that if one moves from the principle of one-production-unit-one vote, there should be no limits imposed on the number of votes per production unit. The Commission argues that, unless the principle of one-production-unit-one vote is maintained, and unless legal manipulation to maximize the number of votes per production unit is to be left completely unchecked, the selection of any number must be somewhat arbitrary and very much a "political" compromise made in the interests of common sense. The maximum of three votes per production unit gives some recognition to "family farm" production units, and is a number used by many other jurisdictions to solve the same problem.

There is one circumstance where vesting rights solely in the production unit may not be satisfactory. This exception is when two or more production units fall under the umbrella of a farm unit. In such a scenario, the farm unit could attain more votes than ordinarily it would be entitled to by claiming voting status for each of the production units under its umbrella. The Commission feels that such occurrences would give undue advantage to farm operators who have organized their legal affairs in this manner. Hence the Commission recommends, in the event of two or more production units falling under the umbrella of a farm unit, that voting rights should be vested in the farm unit.

To this point, the definition of farm unit and production unit, and voting rights and privileges has been primarily concerned with the creation of voters' lists for plebiscites. However, there are other matters to be considered: they are the right, or privilege, to be a member of a commodity board; the right, or privilege, to vote in the election of commodity board members; and the right, or privilege, to share in government support programs.

If the principle of vesting rights and privileges in the production unit or farm unit is maintained, the answers are relatively simple. Each production unit should have the privilege of having one, and only one, member on a commodity board. If the selection of commodity board members is done by election, then each production unit should have one vote, and if a production unit is a legal business entity of more than one person, each should have a vote, but no production unit should have more than three votes.

Capital grants and other assistance programs are easily handled. Capital grants programs should be based on production units, each of which should be eligible for only one such grant. Other assistance programs should be based on the potato acreage of the production unit, or the cwts. of each production unit, although maximum assistance grant amounts per production unit may, of course, be imposed.

The Commission recommends the use of the single term "production unit" to resolve all of the above issues.

An essential and controversial element of any plan is the definition of a dealer. In the Commission's view, a dealer is any person who has a major equity interest in a dealer operation. In such cases, the person is most likely to be actively engaged in the marketing aspect. On the other hand, there are persons, namely farmers, who often get together in a group to market potatoes. These people have a small equity interest in the dealer operation and are not likely to be involved in day- to-day marketing activities. In addition, a dealer should be viewed as someone who markets potatoes outside the Island, given that the local market is so small. As a result, a "dealer" should be defined as any person who has a 20 or more per cent equity interest in a legal business entity actively engaged in the marketing of potatoes outside Prince Edward Island and who has obtained a license from the commodity board. Any person or legal business entity which holds a dealers' license shall not be eligible to be represented on the commodity board, nor shall any person with more than a 20 per cent interest in a dealer operation be eligible to be a member of the commodity board. Such provisions are necessary to clearly establish the nature of the commodity board, to define the interests it represents, and to eliminate the history of controversy surrounding the issue.

Geographical representation on the Board has also been a subject of some contention in the industry. At present, Board membership under the Plan is comprised of two members from each county elected by the Potato Producers' Association, and one member from each county nominated by the Dealers Association and selected by the Potato Producers' Association. As explained in Chapter 2, the industry is heavily concentrated in Prince County, which accounts for approximately 60 per cent of production. Consequently, county boundaries seem to have little relevance to the potato industry. The Commission therefore recommends that a new marketing plan define four production areas representing approximately equal numbers of production units. Each production area would have the same number of representatives on the commodity board. While it will require a legal draftsman to define boundaries precisely, the Commission suggests that four production areas be defined as follows:

Production Area 1 - should consist of that portion of Prince County west of the community of Miscouche (and perhaps including a portion of Miscouche);

Production Area 2 - should consist of the remaining portion of Prince County plus approximately one-half the provincial electoral district of 1st Queens (boundary running north-south);

Production Area 3 - should consist of the remaining portion of Queens County not included in Production Area 2; and

Production Area 4 - should consist of Kings County.

The Commission's suggestion would eliminate the inequalities in representation that now exist and give an appropriate presence on the commodity board to those production areas that now feel remote from the present Board.

The definition of production areas naturally leads to the question of the size of the commodity board. The Commission recommends that the commodity board be composed of eight members, two from each production area. The commodity board should elect its own chairman from among its members.

The length of term of office for commodity board members and the timing of elections are of more importance than is often recognized. The present Board is recognized by all members of the industry as speaking for the industry. Therefore, the present Board or any new commodity board should be responsive to changing opinions in the industry. Responsiveness to changing opinions in the industry can be affected by the length of terms of office and the timing of elections.

The Commission considers the present three-year term of office reasonable. A three-year term should allow the commodity board membership to change as required by changes in the industry.

The Commission further recommends that elections for all commodity board members take place at the same time. The Commission is of the opinion that boards and commissions of any kind become self-perpetuating, unresponsive, and in-bred when elections are held in alternate years. New members tend to defer to the experience and knowledge of the continuing members. Consequently, real change in leadership is difficult to accomplish and voters become frustrated or indifferent. The usual and only argument for holding elections in alternate years is the preservation of continuity. But a problem arises when continuity is no longer desired by the voters. This argument is easily met. Even if continuity in some matters may be desirable, it should be provided by the administrative staff who should also be responsive to the wishes of their new employers.

An essential element of the present Plan and legislation is the provision for the calling of plebiscites. Sections 8 and 9 of the Marketing Act (1956) require the Minister of Agriculture to call a plebiscite for the termination of the Plan upon receipt of a petition signed by not less than 10 per cent of the producers. Since the Marketing Act (1956) does not provide for the amendment of marketing plans, such a provision may have been absolutely necessary. However, since the NPMA (1969) provides for the amendment of marketing plans, the plebiscite provisions may not be so necessary.

The Commission is of the view, however, that a plebiscite provision should be in place in order to give farmers the opportunity to effect changes they may desire but have been unsuccessful in persuading officials to adopt. That being said, any petition calling for a plebiscite ought to require a strong base of support in the potato farm community. As a result, a petition for a plebiscite should contain signatures of production unit members representing at least 25 per cent of all production units on the Island. The 25 per cent requirement indicates a significant amount of broad-based support for a petition, yet it should not be prohibitive to those who wish to initiate a plebiscite. Moreover, it represents a major improvement over the 10 per cent requirement found in the Marketing Act (1956).

The purpose of the commodity board is also an item of some importance. While a purpose should not outline specific tasks to be undertaken, it should provide some direction to the commodity board and contain the following purposes:

(a) To obtain and disseminate information pertaining to potato production and marketing;

(b) To promote and encourage the production and marketing of quality potatoes;

(c) To promote the development of markets for Island potatoes;

(d) To encourage the efficient marketing of Island potatoes;

(e) To seek the best possible returns for the Island potato farm community; and

(f) To seek to ensure that the potato marketing system treats all participants in the industry as equitably as possible.

The Commission can only come to the conclusion that the industry and government should address a number of legislative issues. The present Marketing Act (1956) and the present Plan are deficient in a number of ways and have not been changed in the last thirty years. A number of issues have been the subject of controversy for a long time and ought to be remedied by changes to both the legislation and the Plan. If these changes can be made successfully, the industry ought to be able to establish the unified leadership that has been lacking for some time. Such changes also ought to eliminate much of the controversy that has plagued the industry for so long, allowing the industry to act, plan and function as a single industry rather than as approximately 650 separate production units. The industry is too vital to its members, and too important to the Island economy, not to put its own house in order.

RECOMMENDATIONS

The Commission makes the following recommendations on the legislative framework for the industry:

1. That the Marketing Act (1956) be repealed immediately by proclaiming Section 18 of NPMA (1969).

2. That potatoes be named a designated product under the NPMA (1969) at the same time as the Marketing Act (1956) is repealed.

3. That the NFU Act (1973) be repealed at the next session of the Provincial Legislature.

4. That the Marketing Council be asked to draft a Marketing Plan for potatoes to be approved by the Lieutenant-Governor-in-Council at the same time that the Marketing Act (1956) is repealed.

5. That the Lieutenant-Governor-in-Council create a provisional commodity board for potatoes at the same time that the Marketing Act (1956) is repealed.

6. That, immediately upon creation of the provisional commodity board, the Marketing Council in consultation with the provisional commodity board and the Potato Producers' Association arrange for the election of members to a commodity board.

7. That, immediately upon the election of members to a commodity board, the Marketing Council and the commodity board in consultation with the Potato Producers' Association begin discussions leading to the confirmation, termination, or amendment of the Marketing Plan then in place.

8. That, upon completion of the discussions recommended in Recommendation 7, a plebiscite be held on the Marketing Plan which results from the discussions.

9. That the plebiscite recommended in Recommendation 8 be held within 18 months of the creation of the provisional commodity board.

10. That, should the discussions between the Marketing Council, the commodity board, and the Potato Producers' Association not result in an agreement, the Plan then in place be continued, terminated, or amended, as recommended by the Marketing Council.

11. That "farm unit" be defined as any person or legal business entity that controls a single tract of land or a number of separate tracts held under the same or different tenures and operated as a single unit for agricultural purposes.

12. That a "potato production unit" be defined as any farm unit which grows a minimum of five acres of potatoes and has the necessary land, buildings, and equipment to carry on the activities of the production unit, or the activities of the production unit in conjunction with the other activities of the farm unit, without any contribution from any other production unit.

13. That rights and privileges in the industry, including the right to vote, be vested in the production or farm unit subject to Recommendations 14, 15, 16, and 17.

14. That each production unit have one vote in plebiscites or elections affecting industry matters.

15. That where a production unit is a legal business entity comprised of more than one person holding at least a 10 per cent interest and engaged in the activities of the enterprise, each person shall have one vote, but a production unit shall not have more than three votes.

16. That, where more than one production unit falls under the umbrella of a farm unit, all voting rights will pass to the farm unit. The number of votes per farm unit will follow the same rules as for production units as outlined in Recommendation 15.

17. That goverment assistance and other programs be based on production units and that production acreage or volume of marketing may also be a valid criteria.

18. That a dealer be defined as any person who has 20 or more per cent equity interest in a legal business entity engaged in the marketing of potatoes outside Prince Edward Island, and who has obtained a license from the commodity board.

19. That four production areas be formed for the purposes of electing commodity board members, as follows:

Production Area 1	Should consist of that portion of Prince County west of the community of Miscouche (and perhaps including a portion of Miscouche);
Production Area 2	Should consist of the remaining portion of Prince County plus approximately one-half the provincial electoral district of 1st Queens (boundary running north-south);
Production Area 3	Should consist of the remaining portion of Queens County not included in Production Area 2; and
Production Area 4	Should consist of Kings County.

20. That each production area elect two members to the commodity board.

21. That commodity board directors must be members of production units or farm units subject to Recommendations 15 and 16.

22. That a dealer as defined in Recommendation 18 be ineligible for commodity board membership regardless of whether he or she is a member of a production or farm unit.

23. That no production unit have the right to have more than one person as a member of the commodity board.

24. That the term of office for commodity board members be three years and that members be eligible for a maximum of two consecutive terms.

25. That the election of all commodity board members take place at the same time.

26. That plebiscites may be initiated under the new Marketing Plan by a petition containing the signatures of members representing at least 25 per cent of the production units registered with the commodity board.

FOOTNOTES

1. Hon. Tim Carroll, Minister of Agriculture, Royal Commission on the Potato Industry, Public Hearings, Vol. I, 24 January 1987 (Charlottetown: Royal Commission on the Potato Industry, 1987), p. 120.

2. The vote results showed 1106 in favour of the Plan, and 1118 opposed; Guardian, 14 December 1957, p. 5.

3. PMB Newsletter, 6 (August, 1986), p. 1.

4. Guardian, 4 October 1986, p. 5.

5. PMB Newsletter, p. 1.

6. Prince Edward Island Potato Marketing Board, Royal Commission on the Potato Industry, Public Hearings, Vol. II, 27 January 1987, p. 404.

7. Ibid., pp. 422, 423.

8. Prince Edward Island Potato Producers' Association, Ibid., 7 February 1987, p. 489.

9. Prince Edward Island Federation of Agriculture, Ibid., Vol. I, 31 January 1987, p. 180.

10. Review of Board file regarding this matter, obtained from the Board by the Commission.

11. National Farmers Union, Royal Commission on the Potato Industry, Public Hearings, Vol. I, 4 February 1987, p. 287.

12. Prince Edward Island Potato Producers' Association, Ibid., Vol. II, 7 February 1987, p. 493.

13. Prince Edward Island Potato Marketing Board, Ibid., 27 January 1987, p. 435.

CHAPTER 7

National Alternatives

The Island potato industry approaches the future within the framework of an open market system which distributes potatoes throughout the world for a number of end uses. This market system distributes consumer dollars among the participants in the marketing chain. Chapter 3 of this Report suggests that this distribution of income varies greatly among industry participants, and that Prince Edward Island producer shares are not as high as they should be. Market buyers who are few in number and have market power, in the face of many disorganized producers, are able to extract larger shares relative to their investment. Those who are small-scale, disorganized, and far from their markets, must content themselves with minimum returns, which are just greater than the amount at which they would refuse to sell their product.

Under the current system, producer shares of the consumer dollar vary from one producing area to another. Those producers who have captive markets, are in close proximity to those markets, and are well-organized, are likely to achieve larger shares of the consumer dollar. Prince Edward Island producers who do not have any major captive markets, are far removed from their markets, and are relatively disorganized, receive amongst the lowest shares of any producers in Canada.

The recommendations made by the Commission respecting reorganization of the Prince Edward Island potato marketing system, represent steps by which producers can operate more profitably within the framework of an open market. They represent steps that are within the competence of the province, and which can squeeze more out of the marketplace for the farmer. While such steps can have a positive impact on farm incomes, and hence help decrease the hemorhage in potato farm numbers, it may not be enough to maximize producer returns and to encourage many Island potato farmers to remain in the industry. More fundamental changes may need to be considered.

Many participants in the industry feel that the principle of the open market is the only route to follow. The Dealers Association made this point clear in its brief to the Commission: "We believe that the [National Agency] Task Force should be seeking a solution within the present free system and not through something akin to a dictatorship."[1] It is argued that it is the fairest system because the market alone picks the winners and losers. The efficient or economically strong will thrive and grow; the inefficient or economically weak will falter and eventually wither away. It is also argued that this approach brings the hope of ensuring, through efficiency and competition, the long-term viability of the Island potato industry. The Island potato industry basically has operated on this principle.

Despite the traditional line of argument used by those who propose continuation of an open-market approach, there are a number of associated social inefficiencies and costs. Those forced out of the potato industry by economic circumstances must be directed into new activities. At best, it means some economic dislocation, and may involve retraining and other forms of transitional support for those leaving the industry. At worst, it means more people on welfare on a permanent basis. The cost for such efforts are not borne by the open-market participants, but by the general public.

There is an additional cost associated with the lack of care taken to protect the land resource which often is a part of large-scale farming. Poor land use practices can also be a part of an industry in economic distress creating long-term inefficiencies in potato farming by requiring more cash inputs to maintain yields. In essence, an unfettered open-market approach, with its attendant move toward larger farm units, may ensure short-term viability of the potato industry. However, in the long-run, it could prove dangerous not only for the industry, but for the province as a whole.

Farmers, and in particular potato farmers, are often known for their independent spirit as they harvest nature's bounty. This image fits nicely with an independent approach to marketing; however, a closer look at the market indicates that farmers are in fact very much interdependent. The quantity of potatoes sold by a farmer and the price received for them is very much dependent on the amount of potatoes produced by neighbours or fellow farmers in other producing areas. This can often lead to intense price competition among producers. However, many farmers fiercely guard, promote, and take great pride in their independent image, and while self-image may not reflect reality, it is a very powerful emotional factor, and must be noted by responsible decision-makers.

Despite the fact that the open-market approach has tended to dominate the Island potato industry's marketing strategy, it has come into question from a number of sources. The Federation of Agriculture, the National Farmers Union, the Potato Co-ordinating Committee of the 1970s, the provincial government, and in the distant past, the Board, have all made attempts to restructure the Island's potato marketing system. These attempts have been aimed at strengthening the bargaining position of producers within the marketing chain, and associated with them was the long-term goal of achieving price stability. The groups promoting change have had their followers; however, as the history of the industry shows, those promoting change never had quite enough support to change the status quo.

Recently, the debate concerning potato marketing has reappeared and centres on the achievement of fair and stable prices. The push for fair and stable prices appears to come from a number of sources within the industry, with smaller-scale producers and some larger producers among its strongest proponents.

No doubt the poor price year experienced in 1985-86 has lent a sense of urgency to the search for greater price stability. Whether the relatively good price year experienced in 1986-87 has lessened the sense of urgency remains to be seen. The reasons underlying the desire for income stability seem quite straightforward, and were clearly articulated by Mrs. Isabelle Campbell during the Commission's public hearings.

> A lot of farmers don't feel like free enterprise any more. It hurts too much when the years are poor. They are a lot more willing now to have some kind of stability built into the industry,

> even if it isn't that smooth. A lot of them have told us they wouldn't want to go back through another year like last year [1985-86], and we may have to next year [1987-88], there is still no kind of protection for us.[2]

Many in the industry share Mrs. Campbell's view. Most would agree that there is no protection for the farmer in the current system. Many feel that some form of stability in the industry is desirable. There is a divergence of views, however, regarding the form this stability should take. It is generally recognized that, to be effective, any arrangement aimed at stability must be national in scope. The reasons are straightforward. First, the Island alone does not have the financial resources needed to stabilize potato prices. Second, to effect changes in the market outside the Island, it is necessary to extend jurisdiction through participation in a national plan.

During the course of its public hearings, the Commission was made aware of two possible directions to follow in terms of national schemes.[3] One plan involved the Island industry becoming part of a national income stabilization scheme; the other recommended supply management on a national scale. Within the national income-stabilization approach, two possible options are available: a tri-partite income stabilization plan for potatoes, and potatoes as a named product under the Agricultural Stabilization Act (1957-58, cap. 22, s. 1). Within the supply-management approach, two possible options were forwarded: the National Farmers Union "Twelve-Point Program," and the "National Program for Marketing of Potatoes in Canada," promoted by the National Potato Agency Task Force.

NATIONAL INCOME STABILIZATION

Tri-Partite Income Stabilization

Tri-partite income stabilization operates under a scheme whereby the federal government, the provincial governments, and producers share equally the premiums for income stabilization. In other words, each party pays one-third of the premium. Since producers' participation in such a plan is voluntary and the provincial and federal governments usually match the overall contributions made by producers in each province. The support price is based at some level below the cost of production (e.g., 85-90 per cent of cost of production), and usually excludes any farm labour charges or return on equity. The income stabilization scheme comes into effect when the price for the product falls below the support price.[4]

This type of stabilization probably would be inappropriate for the Prince Edward Island potato industry. It would be difficult to collect sufficient premiums to support such a scheme in the long-run. Section 5 of the Agricultural Stabilization Act (1957-58) states:

> Under an agreement, the share of the premiums to be paid by Canada may not, in any given year, exceed three per cent of the average aggregate market value of the agricultural commodity of which the agreement relates, or of such related group of agricultural commodities as is described in the agreement for the purposes of this subsection, sold by participating producers during that year and the two preceeding years.

This means that the maximum premium collected from all three participants would be 9 per cent of the average aggregate market value during the year it was collected and the two preceding years. Given the violent swings in potato prices from year to year, it is unlikely that this premium level would be sufficient to cover income stabilization requirements over the long-run. This could be safeguarded against by setting the support price at a low level; however, the lower the support price, the less use the program is to producers.

There are other problems with tri-partite stabilization. First, such a program would require a contribution from the Island government, which has a small treasury relative to the size of its potato industry. Second, the producer premium could place a considerable burden on producers, particularly smaller ones whom, as has already been demonstrated, have low incomes. These individuals might find such a program beyond their financial means. Third, tri-partite stabilization may encourage increased production by participating producers. Such an occurrence would penalize those who chose not to participate in the scheme, and be self-defeating for those who do take part.

Finally, tri-partite stabilization treats only the symptoms and not the disease. Such a plan does not tackle the underlying marketing problems within the industry, such as matching supply more closely with market requirements. In fact, stabilization can exacerbate such problems by encouraging producers to increase production. By treating only the symptoms, tri-partite stabilization allows the disease to become more pronounced. It is questionable if it would appreciably assist the very people it is intended to help.

Tri-partite income stabilization would not seem to be appropriate for the Island potato industry. Even if Island producers and the provincial government wished to pursue the scheme, it would be long, arduous, and costly to put one in place.

The Quebec potato industry has in place a generous stabilization plan under which 100 per cent of the cost of production and 70 per cent of farm labour charges are covered.[5] As of 1986, the plan was running a cumulative deficit of approximately $21 million.[6] The Quebec government, with vastly superior financial resources, is anxiously seeking alternative approaches. Nonetheless, the plan is in place and it is questionable whether Quebec producers would be willing to give up their generous provincial plan for what might be a less generous national scheme.

The Commission does not recommend that the industry or government follow this route in its pursuit of stability.

Stabilization - Potatoes as a Named Product

Stabilization through named-commodity status under the Agricultural Stabilization Act (1957-58), is distinct from tri-partite stabilization in that the federal government covers the full cost of operating the program; producers or provinces do not pay premiums. To achieve named commodity status under the Agricultural Stabilization Act (1957-58), an amendment to Section 2(1)(a) would be needed, enumerating potatoes under the section, and requiring approval from the federal Minister of Agriculture, the federal Cabinet, and the Parliament of Canada.[7] It is likely that the federal government would not wish to give one province an on-going competitive advantage over the other, and would want to include the other eastern Canadian provinces in such a plan.

If potatoes were a named commodity under the Agricultural Stabilization Act (1957-58), the problem of placing a financial burden on producers and provincial governments in terms of premiums would be eliminated. However, it could be viewed as a form of direct subsidy, which could be considered grounds for countervail action by our American neighbours. The success of a countervail suit would very much depend on whether or not the American industry could prove injury as a result of the program. In addition to this concern, the case for potatoes as a named product has disadvantages similar to those found with tri-partite stabilization: there is a potential for increased production; it does not tackle the underlying problems facing the industry; and the willingness of Quebec producers to participate as equal partners in such a scheme remains in doubt.

It is unlikely that potatoes will become a named product under the federal Agricultural Stabilization Act (1957-58). The federal government would not want to make an on-going commitment to the potato industry, as it is under pressure to provide large amounts of stabilization to western wheat farmers, whose financial situation and prospects are far worse than their counterparts in the potato industry. It is likely that the federal government will direct as many stabilization dollars as it can toward wheat, and thus would be reluctant to take on new commitments for other agricultural commodities.

It is obvious that many problems are associated with potential stabilization plans. For instance, they do not tackle the fundamental issues of rational production and marketing, and represent only a short-term, band-aid solution; they are appropriate only in extreme crisis situations; and they provide the potential risk of creating welfare dependency among potato farmers. In a province already far too dependent on income transfers, this is something that should be avoided. Clearly, other national solutions must be sought.

NATIONAL SUPPLY MANAGEMENT

The best long-term solution to the province's potato problems lies with a national supply-management system. The Commission favours this approach for a number of reasons. First, it is the best way to even out price fluctuations within the potato industry and provide some continuity upon which farmers can base future plans. Second, it gives farmers a bargaining position within the marketplace, which is something they currently do not have. Third, supply management would make an important contribution to stabilizing the province's economy, now significantly influenced by the instability of potato prices. Fourth, a supply-management system offers the farmer the possibility of acquiring the necessary resources to respect the land resource and to protect it for use by future generations. Fifth, supply management puts the potato industry on an equal footing with major industries and businesses which tailor production to market demands. Finally, supply management encourages farmers to work together for a common purpose, instead of pursuing separate, often self-defeating goals. Farmers gain little by being divided.

Transforming supply management from a concept into a workable plan is not an easy task. Various participants have instant concerns they want addressed, although they also wish to take a constructive approach to developing a plan.[8] Others prefer to use their legitimate concerns as a stumbling block instead of a problem to be resolved. Yet others oppose supply management on ideological grounds; they do not accept the notion that farmers currently have no bargaining position and cannot imagine why they would seek one.

Some farmers, may not be able to envisage their personal situation improving under supply management. Farmers who are deeply in debt may not see salvation in price stability. They need a big price year and a large crop, something a supply-management scheme may deny them. Others oppose supply management because they see as their mandate the protection of Canadian consumers. For instance, it appears that both the Consumers' Association of Canada and the Investigation Branch of Consumer and Corporate Affairs oppose a supply-management scheme.[9] While they may have legitimate concerns, the approach taken by these parties at the National Farm Products Marketing Council hearings in Charlottetown raises questions regarding their priorities. One wonders if the focus of the two organizations on the efforts of potato farmers to gain security is a reflection of their failure to successfully take on industry giants, including those who make farm machinery. Despite the presence of opposition from some sources, there appears to be support among many

Island farmers for a supply-management scheme which would give fair treatment to all industry participants (e.g., farmers, processors, dealers).

There is little doubt that a supply-management system would affect how business is done and limit the freedom of action of some participants. This must be accepted as part of a supply-managed system. Some farmers view this as an infringement on their freedom; however, it is unlikely that they are more free under the current system, given producer relationships within the marketplace. In any event, it has to be accepted and acknowledged that the status quo would be changed by supply management. Some of these changes are described later in this chapter.

As stated previously, two plans were forwarded to the Commission for consideration and no doubt a great deal of work and thought went into each. The National Farmers Union "Twelve-Point Plan" was developed by that organization. The "Proposal for a Program for the Marketing of Potatoes in Canada" was developed by the National Potato Agency Task Force, consisting of representatives from potato producing provinces, including Prince Edward Island, under the umbrella of the Canadian Horticultural Council. This proposal is currently the subject of the National Farm Products Marketing Council hearings, and a verdict on its future will be rendered at approximately the same time as this Report is released. A discussion of each plan follows.

The National Farmers Union "Twelve-Point Plan"

The National Farmers Union plan involves the control of potato marketing by a federally-appointed Canadian Potato Commission. Beyond the call for a supply-management system involving production quotas, the plan calls for single-desk selling by the National Commission; equal opportunity for delivery; pooling of prices by varieties, classes and grades; government grades and inspection of all sales; management of farm-to-farm sales; import and export controls; pooling of transportation costs; and negotiations between the Commission and organizations representing potato farmers' interests. The NFU's plan involves a two-tiered supply-management approach whereby supply and entry of the product into the marketplace is controlled. The plan includes some important concepts which must be part of any national scheme; for instance, import-export controls.[10] Despite this, the plan does not make allowance for other crucial factors.

One of the major problems with the NFU's plan lies with its call for a federally-appointed Canadian Potato Commission, fashioned somewhat after the Canadian Wheat Board. The Commission questions the appropriateness of such an approach. The Canadian Wheat Board was formed in Western Canada during the Depression of the 1930s.[11] It was an era of emergency federalism, which continued to the end of World War II. During this time, some provinces were more willing than now to allow the federal government to step into their jurisdiction to alleviate economic crises.[12] Much has changed since those critical days. Some provinces now more zealously protect their own jurisdiction and wish to add to it. In present-day Canada, it is more unlikely any province would surrender matters within provincial jurisdiction.

Finally, the differences between the potato and wheat situations are striking. Approximately 80 per cent of wheat production is exported, while approximately 10 per cent of Canadian potato production is exported.[13] Grain is easily stored and transported, and has a relatively high value per unit of weight. This is not true of potatoes. Grain production is concentrated in the Prairies, far from market. For potatoes, this is relatively true only for Prince Edward Island. The National Farmers Union proposal calls for an unnecessarily high degree of costly intervention for a low unit value product. In addition, the National Farmers Union plan does not take into account the servicing of export markets or safeguarding the processing sector. These are considerations which must be handled cautiously.

The major shortcoming of the National Farmers Union plan is that it does not appear to have the support of any potato organization or government, either within or outside our province. This must be considered a serious drawback to its implementation. However, there are some concepts within the plan which cannot be dismissed out-of-hand. These include the need for both orderly marketing under a supply-managed scheme and production quotas.

National Potato Agency Task Force "Proposal for a Program for the Marketing of Potatoes in Canada"

The National Potato Agency Task Force proposal represents the best opportunity for achieving a supply-management system for potatoes in Canada. It contains input from producers representing producer organizations from various provinces, and has support in principle from a number of producer organizations across Canada. On the Island, support in principle has come from the Potato Producers' Association and the Minister of Agriculture. The

Board has seen fit to support the process, but not to endorse its principle.[14]

The proposal has also been the subject of National Farm Products Marketing Council hearings. The Council is expected to deliver a decision in the latter part of 1987. It is difficult to determine the outcome of this proposal, because its future depends on the Council's decision. Hence, events in the very near future may render the following discussion academic. Hopefully, it will provide some useful guidance to the province's negotiators if they become involved in establishing a National Potato Agency.

The proposal as it now stands is just that, a proposal; it is not a plan. The fact that it is only a proposal has led to some confusion, and, in the Commission's view, over-reaction on the part of some who feel their concerns cannot be addressed.

The proposal envisages the regulation of both potatoes and potato products, that is, potatoes in tablestock, seed, or processed form would be covered in those regulated areas where the plan would apply. Regulated areas would consist of the ten provinces and two territories. Those provinces or territories which chose not to participate would be considered unregulated areas.[15]

The proposal recognizes that a federal-provincial agreement would be required because a national agency would utilize powers which fall within both federal and provincial jurisdictions. Hence both levels of government would be required to cross-delegate authorities. At the federal level, this would require delegation to the

National Agency of all authorities available under the Farm Products Marketing Agencies Act (1972, cap. 65), specifically those necessary to operate a supply-management system.[16]

The proposal recommends the pre-season allocation of a marketing quota to each regulated area, based on a historical five-year average of production/marketings. The amount of the annual marketing quota would be based on a pre-season projection of market requirements. This would be modified at the end of five years with a comparative advantage based formula applied to growth or declines in market demand.[17]

The National Agency would be responsible for ensuring that federal and provincial regulations regarding quota administration are complementary. The provincial commodity boards would monitor and enforce quota allocations; post performance bonds at the provincial level to support authorized quota; and accept independent monitoring of provincial quota administration and marketing performance. The arrangements between the National Agency and the provincial commodity boards would require approval from the National Farm Products Marketing Council. The Agency and the provincial commodity boards would also be required to make provision for adjustments to authorized marketings to ensure that available product in one or more areas is released to cover any shortages in other areas.[18]

According to the Task Force proposal, the Agency would operate a licensing system to ensure compliance with regulations, and implement a disposal program for in-quota product in excess of market demand, financed by levies collected from producers; the Agency and provincial commodity boards would be required to complement their levying powers. Levies would also be collected to cover federal and provincial programs covering administration, research, promotion, and disposal of over-quota product.[19]

The National Agency would approve and monitor marketing from unregulated areas based on historical trade. Finally, the Agency would be required to approve provincial disposal programs related to over-quota product.[20]

The provincial commodity boards would be responsible for administering pricing based on cost of production plus a reasonable return for non-processed product; cost of production would be determined by a formula established by the Agency. For processing product, price would be specified under terms and conditions of pre-season contracts between representatives of process growers and processors. The provincial commodity boards also would be responsible for administering quota as delegated by the National Agency.[21]

The National Agency itself would consist of one representative from the provincial commodity board of each participating area and two persons appointed by the federal government. Each director would have one vote. A vote within the Agency would be carried by a two-thirds majority of directors representing two-thirds of the market allocation. The Agency would establish a minimum of four committees: a policy advisory committee, an industry advisory committee, an unregulated area liaison committee, and a market advisory committee.[22]

The Task Force proposal also calls for an import-export arrangement between the United States and Canada, to enable the National Agency to control supply in the regulated areas.[23]

The drafters of the proposal have included a number of concepts and elements essential to the operation of a national supply-management system which need to be addressed. Much of the following discussion has been extracted from information contained in Market Analysis of the P.E.I. Potato Industry, by Roygold Marketing Systems Ltd., June 1987.

Regulated Product and Areas

The Task Force proposal includes all potato products as part of the plan. However, there has been an effort on the part of some within the processing sector to exclude processed potatoes. In the Commission's view, excluding one type of potato product would tend to undermine the entire plan. Processed potatoes can be easily transferred to the tablestock market, so that if processed potatoes were excluded, the chances of them finding their way onto the tablestock market are high, thus undermining the administration of the plan. It appears that all potato products would have to fall under the plan.

In terms of the areas to be regulated, these would be wholly dependent on which provinces chose to enter the plan. Those joining would be part of the regulated area, and those opting out would be part of the unregulated area. An arrangement would have to be made between both areas to ensure that products beyond traditional market shares did not enter the regulated areas from the unregulated areas.

Quota Allocation

As the proposal now reads, there would be a quota allocated to each province based on historical acreages for the past five years. The mathematics of historical acreages looks quite favourable to the Island industry, due to the fact that it has expanded in recent years. However, other provinces may not like the formula and could request a greater share in return for participation. One means of dealing with this is to allocate a percentage of the national quota (e.g., 5 per cent) for development purposes in those provinces wishing to expand their industry; the provincial government in those areas would underwrite disposal of the product. On the other hand, it may be more constructive to reject any alteration of the quota determination formula.

The Task Force proposal speaks only to a uniform provincial quota. There is no differentiation made between potato product types (e.g., tablestock, seed, and processing). In the Commission's view, separate provincial quotas would need to be allocated for each product type, to ensure that sufficient potatoes are available in the processing, tablestock, and seed sectors.

As part of the quota allocation process, the proposal acknowledges that an import-export arrangement would be necessary between Canada and the United States. The United States could sell a certain allocation of potatoes into the regulated areas, based on traditional shares, and the regulated areas could ship a particular allocation into the United States. Such an arrangement is an essential element of a supply-management scheme and would have to be negotiated after a plan is put in place.

As a final point on quota allocation, the proposal speaks only of a marketing quota for each producer. In effect, this means that producers can grow as many potatoes as they wish but can market only the portion permitted by the quota. While this may allow more latitude to the farmer, it raises the probability of over-quota production. The mere existence of over-quota product provides the potential for its eventual entrance into the market, undermining the marketing system's pricing structure. In the Commission's view, a combination of marketing and production quotas will be required to safeguard against over-quota product finding its way into the market.

Pricing

The Task Force proposal envisages pricing based on cost of production plus a reasonable return. There is no provision made for differentiation of price between product types, except for process potatoes. The price for process potatoes would be established through contract negotiations between process growers and processors. The price for seed and tablestock potatoes would be based on cost of production plus a reasonable return. In the Commission's view, a separate cost of production would have to be established for seed and tablestock to ensure product quality. It is unlikely that seed producers would produce for that market unless they were certain to receive a premium over tablestock, as much more care goes into preparing seed potatoes for market.

Cost of production plus a reasonable return may not be a sufficiently strong formula to ensure orderly movement of the product. The resultant price would not likely enable the product to move as smoothly or in the traditional pattern envisaged. As a result, such a plan would have to involve an administered price, using cost of production as a base, taking into consideration variables other than cost of prodction, such as product movement.

The proposal also does not address the issue of a pricing mechanism to ensure movement of potatoes into export markets. If seed and tablestock potatoes are at a higher price in Canada under the plan than prices found on the world market, it would be difficult to move potatoes into those markets. As a result, a mechanism would have to be put in place to establish an export price for Canadian potatoes. A potential solution is for the proposed Agency periodically to run auctions of seed and tablestock potatoes for the export market, inviting bids from both Canadian and foreign representatives. The presence of foreign bidders may be necessary in the seed sector in order to keep the auction system honest. Such a system would solve two problems. First, it would establish an export price to facilitate movement of product. Second, as a pricing mechanism it would help to avoid charges of dumping from producers in other countries.

The Task Force proposal does not address a major processor concern. Canadian processors fear that if a supply-management plan were put in place, the price for the raw product would be more expensive here than in competing countries. They feel that this would make them less competitive in export markets. Although the Commission views this as a legitimate concern, it is one which can be addressed. The Agency and the processors could negotiate an arrangement whereby the agency would remit back to the processors the difference between the cost of Canadian processed potatoes and American processed potatoes, for that portion of processed potatoes destined for export markets.

It is obvious that pricing under the plan may be somewhat complex. Separate pricing mechanisms will be required for the tablestock, seed, and processor sector, as well as product which is export bound. The complex pricing structure would need to be supported by levies collected from producers, and would in essence be maintained by a cross-application of levy funds among differing potato products. For example, in some years levies collected from tablestock growers would be used to support the producer prices to seed growers, and vice-versa.

Orderly Marketing

The Task Force proposal envisages that potatoes would move smoothly to market with the aid of a pricing formula. However, it has already been pointed out that revisions to the formula may be necessary to ensure such orderly movement. The proposal does recognize that in-quota surplus may occur on occasion and offers a mechanism whereby producers can declare product to the provincial boards which will, at an opportune time, place the product onto the market. In the Commission's view, certain conditions would have to be placed on declaration to the Board of in-quota. For instance, farmers may be anxious after harvest to declare their product in order to convert their crops into cash. Such an occurrence could flood the Board with product, making its job very difficult if not impossible.

It may therefore be necessary to place monthly maximums on the amount of product which can be declared to the Board.

Non-quota or over-quota production would also have to be disposed of under a supply-management scheme. This would be done through provincial boards. As a first step, continuous monitoring of the crop would have to be carried out by provincial boards and the National Agency, and a disposal program for non-quota plantings put in place. If non-quota plantings are permitted to grow to maturity, it increases the chances of their finding their way into the marketplace, thereby undermining the pricing system. All dealers would be obliged to report regularly to the National Agency. Provinces would face penalties drawn from posted bonds if they permitted non-quota marketings.

Finally, a mechanism would be needed to ensure that product sold for the export market, under the auction system, would not be redirected into the domestic market where prices are more lucrative. On each export-bound purchase, the dealer would be required to post a bond. If the dealer is unable to prove within a specified period of time that the product has left the country, the bond may be pulled. If such problems persisted, the dealers' license could be cancelled.

Role of the National Agency

The Task Force proposal sets out a role for both the National Agency and provincal boards. Although the Commission does not wish to comment in detail on the division of powers as outlined in the proposal, one point must be stressed. Under a supply-management scheme, it will be necessary to give the National Agency the powers necessary to ensure a level playing field for all producers in all provinces and to protect the integrity of the system. If too much power is given to provincial boards on such crucial matters as pricing, there is a danger that boards could establish policies in the interest of their own provincial producers, and to the detriment of the national system, thus undermining the integrity of the entire plan. It is therefore necessary to give to the National Agency strong supervisory powers. While the Commission can understand the desire of provincial boards to have strong powers, it is in the best interests of all producers that final authority on many important matters rest with the National Agency.

Management

Management is perhaps as important as any other element to the successful operation of a supply-management scheme, since demand would be great on managers at both the national and provincial levels. There will be a great need for impartial professional management, particularly in the early stages of a plan.

Value on Quota

One major concern of the Commission not discussed in the proposal is the question of value on quota. Once a supply-managed regime is in place, the quota allotted each farmer acquires a value, because economic benefits are associated with it (the privilege of producing a particular product at an assured, or perhaps guaranteed, price). If the industry is not careful, the cost of quota can become factored into the cost of production and eventually be reflected in the retail price, creating an inflationary escalation which feeds further increases in quota values.

The Commission finds the notion of value on quota to be objectionable on a number of grounds. First, it represents a serious financial cost to young farmers, and in particular new farmers, which could discourage them from entering a commodity sector. Second, a value on quota could encourage existing farmers to abandon the commodity sector, particularly in the early stages of a supply-managed system. If farmers see that they can receive a higher sale price for their operations due to a quota value being factored into the price of the farm, they might choose to exercise this new-found windfall and exit from the industry. Value on quota can serve as a retirement fund for farmers, an eventuality the potato industry should attempt to avoid. Finally, a major drawback to value on quota is that, as a gift from the public, it would be most unfair if it became a cost to the consuming public. If the value of quota is factored into the cost of production and eventually the retail price, the consumer is ultimately the one who bears the cost, a point about which consumer groups have a very legitimate grievance with some supply-managed systems.

In the Commission's view, those designing a supply-management system for potatoes should attempt to build in mechanisms to ensure potato quota does not attain a value. As a first step, it would be necessary to recognize that a quota is the property of the provincial boards and does not belong to the farmer who uses it. However, this in itself may not be enough to safeguard against value on quota. For instance, when a farmer sells his or her farm, the selling price may simply be increased to account for quota. The purchaser would be willing to buy at the inflated price in anticipation of receiving quota from the Board. The net effect of such a transaction is that, in the future, a quota value may become part of the cost of production. To avoid such transactions occurring, the negotiators should look at the Manitoba potato industry's handling of similar concerns within that province's supply-management system.

According to Section 50 of Manitoba's Potato Quota Order, the Manitoba Vegetable Marketing Board, in supervising the sale of a potato farm, "may require an appraisal of land, buildings and equipment by a qualified appraiser to ascertain the fair value of land, buildings and equipment using generally accepted appraisal methods, such costs to be borne by the applicant (as purchaser)."[24] This mechanism might help avoid some of the difficulties outlined above.

Other provisions will be needed with respect to quota, such as one recognizing the transfer of quota from a farmer to heir. The designers of a supply-management system for potatoes should consider a priority system for re-allocation of such quota. For instance, first priority could be given to a direct heir of an existing farmer, second priority to farmers growing less than 50 acres, third priority to new farmers, fourth priority to farmers growing between 50 and 100 acres, and so on. A priority system similar to this is already in place under the Manitoba system and would be one possibility.[25] In any event, careful attention should be given to provisions respecting treatment of quota under a supply-managed system.

The proposal as it now stands represents a good working document from which a plan can be developed. The

Commission has provided some commentary which, it is hoped, will prove to be constructive for Island negotiators involved in developing a plan. Nonetheless, the Commission is satisfied that the Island can participate in a supply-management scheme without endangering some of its major markets if proper care is taken. No doubt there are other issues which are worthy of further discussion; the Commission has chosen to concentrate on those areas of most concern to the Island potato industry. For further information, refer to the background paper prepared for the Commission, Market Analysis of the Potato Industry, by Roygold Marketing Systems Ltd., June, 1987.

On 4 October 1987, the Canadian and United States governments reached a free trade agreement. It is not for the Commission to pass judgment on this preliminary agreement. However, a major concern has centred on its potential impact on import-export restrictions fundamental to operating an effective supply-management system. These concerns are addressed in the preliminary transcript of the Canada-U.S. Free Trade Agreement - Elements of the Agreement.

> Both Parties have agreed they will not maintain or introduce import or export restrictions except in accordance with the GATT, or as modified by the Agreement. Concerning imports, exceptions to this rule will only be allowed for traditional GATT Article XX reasons, such as health and safety. With respect to exports, short supply and conservation measures may be taken, but they must provide for the sharing of the resource with the other Party and they may not create price discrimination by other means. The Agreement also contains a commitment to cooperate on the implementation of export controls (for short supply and conservation purposes only) to prevent diversion to third parties.[26]

This section indicates that the Agreement will not erect legal roadblocks to an import-export arrangement needed to support a national supply-management system for potatoes. Discussion with the Prince Edward Island Trade Office indicate that supply management qualifies as a "traditional reason" under GATT Article XX. The fact that the Free Trade Agreement does not legally affect the establishment of a future supply-management system does not remove the need for political will, on the part of the Canadian and American governments, to negotiate import-export restrictions. However, political will would be required with or without a free trade deal.

The outcome of the National Farm Products Marketing Council hearings will determine whether the process of developing a plan for potatoes will proceed. To continue the process, the Council will be required to make a recommendation to that effect to the federal Minister of Agriculture. At this point, it is mere speculation as to what the Council's recommendation will be.

Presuming the Canadian potato industry receives clearance to develop a plan, it is not evident exactly how successful the industry will be in arriving at a supply-management scheme which meets the approval of a major proportion of the Canadian potato industry. The provinces of Nova Scotia, Quebec, Ontario, and British Columbia appear to support strongly a move towards a supply-management system. Newfoundland is willing to consider a new system. Manitoba appears to favour supply management with processing excluded, a condition other provinces may find unacceptable. Alberta and Saskatchewan essentially are negative towards a national plan. New Brunswick's opinion at this stage is unknown; a new provincial government has recently been elected and producers have adopted a "wait-and-see" attitude.[27]

On Prince Edward Island also, the situation is not completely clear. The Minister of Agriculture, the Honourable Tim Carroll, has taken a strong stand in favour of national supply management, but many Island producers, like their counterparts in New Brunswick, are taking a "wait-and-see" attitude. While the Commission is of the view that many Island producers would favour a supply-management system, it recognizes that such sentiments can change when farmers make a choice by way of plebiscite.

A supply-management plan for Canadian potatoes could be made to work with the participation of the provinces east of the Ontario-Manitoba border. In all likelihood there will be a great deal of pressure on Islanders negotiating such a plan. They will be facing shrewd negotiators from other provinces; if past provincial relations in other fields are any indication, Quebec will be well represented and equipped with technical and negotiating advice from the Quebec government. Ontario and other provinces will also be well represented. When facing other provinces, it is sometimes easy for an Island negotiator to feel outgunned and vulnerable.

Prince Edward Island often is not a major participant in a particular field of endeavour and is not considered an important player at national negotiating tables. Usually, the best the province can hope for is to become aligned with a major participant which will serve its interests. However, when it comes to the potato industry, the Island is the major player, with over 25 per cent of all Canadian acreage and much to gain and lose. This means that the province has the ability to influence the direction of negotiations. Given the high stakes for Prince Edward Island in a potential supply-management plan, it is of utmost importance that Island negotiators be provided with sound technical and back-up advice.

RECOMMENDATIONS

The Commission makes the following recommendations:

1. That the Island potato industry and government work towards the formation of a national supply-management system in Canada.

2. That the "Proposal for a Program for the Marketing of Potatoes in Canada" be endorsed by the Island industry and government as the basis for the development of a supply-management plan.

3. That the provincial government provide Island negotiators with the necessary back-up and technical advice to develop a national supply-management plan.

FOOTNOTES

1. Prince Edward Island Potato Dealers Association, Royal Commission on the Potato Industry, Public Hearings, Vol. II. 12 February 1987 (Charlottetown: Royal Commission on the Potato Industry, 1987), p. 354.

2. Isabelle Campbell, Women in Support of Agriculture, Ibid., p. 586.

3. Several groups appearing before the Commission proposed national plans as a means of stabilizing Island potato farm incomes. The National Farmers Union and the National Potato Agency Task Force Representatives forwarded plans for a supply-management approach. Clarey Farms broached the possibility of a tri-partite income stabilization plan. See Ibid., Vol. I, 14 February 1987, pp. 56-64; 4 February 1987, pp. 288-291; and, Vol. II, 6 February 1987, pp. 321-334.

4. This section was formulated as a result of the Commission's review of the Agricultural Stabilization Act (1957-58, cap. 22, s. 1), and discussions with individuals familiar with the Act, such as Al Proulx, who is responsible for administering the Act.

5. Interview with Jacques Mailhot, General Manager of the Quebec Federation of Potato Producers, conducted by the Commissioner, Assistant to the Commission, and Commission Consultant (acting as interpreter), Ottawa, 16 March 1987.

6. "Regie des assurances agricoles du Quebec assurance-stabilisation: statistiques par annee de production," 9 janvier 1987, p. 10.

7. Agricultural Stabilization Act (1957-58, cap. 22, s. 1). p. 1.

8. Several groups appearing before the Commission raised concerns with respect to a supply-management scheme. These included Cavendish Farms, the P.E.I. Count Potato Association, Mid-Isle Farms, and Linkletter Farms. See Royal Commission on the Potato Industry, Public Hearings, Vol. I, 3 February 1987, pp. 47-49; 29 January 1987, pp. 101-102; 24 January 1987, pp. 254-256; 7 February 1987, pp. 262-265.

9. This comment comes as a result of the Commission's observation of the Farm Product Marketing Council's hearings, held in Charlottetown, April 1987.

10. National Farmers Union, Royal Commission on the Potato Industry, Public Hearings, Vol. I, p. 290.

11. Don Mitchell, The Politics of Food (Toronto: Lorimer and Company, 1975), p. 68.

12. Robert F. Adie and Paul G. Thomas, Canadian Public Administration: Problematical Perspectives (Scarborough, Ont.: Prentice-Hall Canada Inc., 1982), p. 231.

13. Agriculture Canada, Marketing and Economics Branch, *Potato Market Review 1984-85* = *Revue du marche des pommes de terre 1984-1985* (Ottawa: Agriculture Canada, 1985), p. 15; *Royal Commission on the Economic Union and Development Prospects for Canada*, Vol. II ([Ottawa]: Minister of Supply and Services, 1985), p. 421.

14. P.E.I. Potato Marketing Board, P.E.I. Potato Producers Association, and the P.E.I. Minister of Agriculture in National Farm Products Marketing Council, *In the Matter of a Hearing Into the Merits of Establishing a National Marketing Agency for Potatoes*, 29 April and 30 May 1987 (Ottawa: Angus, Stonehouse and Company Ltd. 1987).

15. National Potato Agency Task Force Representatives, *Royal Commission on the Potato Industry, Public Hearings*, Vol. II, 6 February 1987, pp. 324-334.

16. *Ibid*.

17. *Ibid*.

18. *Ibid*.

19. *Ibid*.

20. *Ibid*.

21. *Ibid*.

22. *Ibid*.

23. *Ibid*.

24. Manitoba Vegetable Producers' Marketing Board Order 2/82, Potato Quota Order, 26 February 1987, Section 50.

25. Interview with John Kuhl, Chairman of the Manitoba Vegetable Producers' Marketing Board, conducted by the Commissioner, Assistant to the Commission, and Commission Consultant, Ottawa, 15 March 1987.

26. External Affairs Canada, Canada-U.S. Free Trade Agreement - Elements of the Agreement ([Ottawa]: External Affairs Canada, 1987), p. 11.

27. Roygold Marketing Systems, pp. 137-148

CONCLUSION

Directions for the Future

There is no doubt that the Prince Edward Island potato industry has been successful and is important to the province's economy. Its importance is evident from even a brief review of the economic data. Its continued success is essential to the Island economy.

There may be less reason to anticipate continued success. Other potato industries are organizing to claim more of the Island's traditional Canadian markets. The international seed market is threatened. Consumer trends and preferences may erode the demand for the Island product over that of the competition in North American markets. The land base to support the Island industry may not be properly managed and could be losing its productivity. Many are leaving the industry because of low returns, and returns may not be distributed as fairly as possible. Producer shares in Prince Edward Island are among the lowest of any producing area in Canada. Internal dissension weakens effective leadership.

While the future may present difficulties, they should be viewed as challenges to be met and not as reasons for resignation. Despite potential problems, a highly productive land base still exists. There are many excellent growers. The product has a good reputation and is still preferred by many. Innovation and creativity are evident.

These are all reasons to be confident about the future. But even if there were no new challenges, the industry should be trying to better confront the old ones. For some of these areas of the industry, the Commission has tried to address both the old and new.

While there are many areas to be addressed, for the purpose of focusing its efforts the industry might want to consider three areas: organization, product quality, and stability. These areas would include most industry concerns and would in some cases overlap. Attention to these concerns could be the basis for a plan for the future.

Since the industry's success depends on competing effectively outside the province, it should do as much as possible to act as a well organized, effective unit. The present organization does not always permit this. The legislative framework ought to be changed. The legislative and organizational changes recommended ought to remove much of the dissatisfaction, strengthen the role of the producers, and lead to better marketing. The industry would, to some extent, have greater control of its destiny.

Quality is one of the Island industry's competitive advantages, and refers to not only the quality of the product when harvested, but also the quality of the product when purchased by the consumer. It includes proper handling, storage, and grading facilities, and adequate inspection services. It demands a devoted commitment by every participant to market only the very best product at all times for the sake of the total industry. Quality also concerns the need to provide the product demanded by the consumer. This includes proper preparation of the product, and proper packaging in sizes acceptable to consumers. This requires the collection of up-to-date consumer information by the industry, and proper dissemination of such to growers and other industry participants. Protection of the land base is also essential to ensure the growth of a quality product. In addition, alternative uses for the product can protect quality by providing a market for lower-quality product.

Stability of production, organization, and economic returns must be the long-term goal of the industry. All measures taken to improve the organizational structure and to protect quality contribute to this objective. Stability is dependent upon adequate and constant prices, a strong and respected organization, and consistent quality. It is also dependent upon a productive land base. But other measures may be necessary. Few industries do not base production on projected demand. The potato industry is one of the exceptions. The industry would be well-advised to pursue stability through a national supply-management system as well as act upon those matters within its own competence. The volatility of the potato market demands that every measure possible be taken to bring about some tranquility.

It is of the utmost importance that the possibility of a national supply-management system not be used by the provincial industry and government as a reason for inaction. The creation of a national system is still quite uncertain, and even if it is agreed to, its implementation may be quite some time in the future. Even if a national system is put in place, most of the measures recommended by this Commission will still be necessary. Some of them may be more necessary.

All of the Commission's recommendations relate in some way to the three areas discussed above. Those found acceptable could be the basis for developing a long-term industry strategy. Some should be implemented immediately, others relate to longer term planning, and still others require further study.

The implementation of some recommendations will be the responsibility of government, some the responsibility of the industry, some the responsibility of a new commodity board, and some can only be implemented through the co-operation of all industry participants. To help with this process it might be useful to establish an implementation committee. Such a committee could be apointed by the Minister in consultation with the Potato Producers' Association. The membership of the committee could be as follows: three producers chosen by the Producers' Association; one marketing expert; and one person knowledgeable about agricultural marketing. The two latter persons need not, and perhaps should not, be directly associated with the industry. Such a committee might supervise the implementation of a long-term strategy arising from the Commission's recommendations. However, the government should act immediately to implement the legislative changes; otherwise, an implementation committee might never be necessary. The purpose of the implementation committee should not be to report on the Report.

The potato industry is too important to Prince Edward Island either to be left in a state of suspension, essentially as it has been for the past year, or to permit a return to the state of uncertainty in which it existed for some time before that. Some action is necessary. The means to act are available. The Island industry requires it.

RECOMMENDATIONS

RECOMMENDATIONS

The Commission makes the following recommendations:

Legislation

1. That the Marketing Act (1956) be repealed immediately by proclaiming Section 18 of the NPMA (1969).

2. That potatoes be named a designated product under the NPMA (1969) at the same time as the Marketing Act (1956) is repealed.

3. That the NFU Act (1973) be repealed at the next session of the Provincial Legislature.

4. That the Marketing Council be asked to draft a Marketing Plan for potatoes to be approved by the Lieutenant-Governor-in-Council at the same time that the Marketing Act (1956) is repealed.

5. That the Lieutenant-Governor-in-Council create a provisional commodity board for potatoes at the same time that the Marketing Act (1956) is repealed.

6. That, immediately upon creation of the provisional commodity board, the Marketing Council in consultation with the provisional commodity board and the Potato Producers' Association arrange for the election of members to a commodity board.

7. That, immediately upon the election of members to a commodity board, the Marketing Council and the commodity board in consultation with the Potato Producers' Association begin discussions leading to the confirmation, termination, or amendment of the Marketing Plan then in place.

8. That, upon completion of the discussions recommended in Recommendation 7, a plebiscite be held on the Marketing Plan which results from the discussions.

9. That the plebiscite recommended in Recommendation 8 be held within 18 months of the creation of the provisional commodity board.

10. That, should the discussions between the Marketing Council, the commodity board, and the Potato Producers' Association not result in an agreement, the Plan then in place be continued, terminated, or amended, as recommended by the Marketing Council.

11. That "farm unit" be defined as any person or legal business entity that controls a single tract of land or a number of separate tracts held under the same or different tenures and operated as a single unit for agricultural purposes.

12. That a "potato production unit" be defined as any farm unit which grows a minimum of five acres of potatoes and has the necessary land, buildings, and equipment to carry on the activities of the production unit, or the activities of the production unit in conjunction with the other activities of the farm unit, without any contribution from any other production unit.

13. That rights and privileges in the industry, including the right to vote, be vested in the production or farm unit subject to Recommendations 14, 15, 16, and 17.

14. That each production unit have one vote in plebiscites or elections affecting industry matters.

15. That where a production unit is a legal business entity comprised of more than one person holding at least a 10 per cent interest and engaged in the activities of the enterprise, each person shall have one vote, but a production unit shall not have more than three votes.

16. That, where more than one production unit falls under the umbrella of a farm unit, all voting rights will pass to the farm unit. The number of votes per farm unit will follow the same rules as for production units as outlined in Recommendation 15.

17. That goverment assistance and other programs be based on production units and that production acreage or volume of marketing may also be a valid criteria.

18. That a dealer be defined as any person who has 20 or more per cent equity interest in a legal business entity engaged in the marketing of potatoes outside Prince Edward Island, and who has obtained a license from the commodity board.

19. That four production areas be formed for the purposes of electing commodity board members, as follows:

Production Area 1	Should consist of that portion of Prince County west of the community of Miscouche (and perhaps including a portion of Miscouche);
Production Area 2	Should consist of the remaining portion of Prince County plus approximately one-half the provincial electoral district of 1st Queens (boundary running north-south);
Production Area 3	Should consist of the remaining portion of Queens County not included in Production Area 2; and
Production Area 4	Should consist of Kings County.

20. That each production area elect two members to the commodity board.

21. That commodity board directors must be members of production units or farm units subject to Recommendations 15 and 16.

22. That a dealer as defined in Recommendation 18 be ineligible for commodity board membership regardless of whether he or she is a member of a production or farm unit.

23. That no production unit have the right to have more than one person as a member of the commodity board.

24. That the term of office for commodity board members be three years and that members be eligible for a maximum of two consecutive terms.

25. That the election of all commodity board members take place at the same time.

26. That plebiscites may be initiated under the new Marketing Plan by a petition containing the signatures of members representing at least 25 per cent of the production units registered with the commodity board.

The Board

27. That the new commodity board have a clear separation of policy and administrative functions.

28. That the new commodity board have clear lines of command to ensure accountability, and efficient allocation of resources.

29. That the new commodity board develop job descriptions outlining responsibilities for employees. Such descriptions should be used as the basis for bi-annual staff evaluations, and remuneration should be tied to evaluation results.

30. That the new commodity board develop planning mechanisms for budgeting, operations, and policy development.

31. That the new commodity board take every precaution to ensure the fair administration of its programs.

32. That the new commodity board upgrade the salaries attached to senior positions to ensure competent staff is obtained or maintained. The General Manager of the new commodity board should command a salary comparable to senior government employees ($50,000-$60,000 per annum) in consideration of the importance of the position and its attendant responsibilities.

33. That the provincial government provide funds for an independent management consultant to provide services to the new commodity board for the facilitation of internal organization.

34. That the provincial government provide on-going operational funds to the Elite Seed Farm in the amount of one-third of the annual operational cost or $150,000, whichever is less. Reductions in the price of seed from the Farm should not be allowed to occur as a result of this assistance.

35. That the provincal government provide on-going capital assistance to the Elite Seed Farm in the amount of $50,000 per annum, with provisions made for the Elite Seed Farm to carry capital assistance from one year to the next, if not completely utilized in any one year.

Marketing

Conditions on Dealers' Licenses

36. That the annual fee for a dealers' license be raised significantly from the current $400 fee (e.g., 2,500 per annum).

37. That all those being awarded dealers' licenses provide an annual bond in an amount determined by the new commodity board.

38. That a condition on dealers' license applicants be the ability to demonstrate the necessary staff, office and packaging facilities to effectively carry out their function.

39. That each licensed dealer be required to move annually a minimum of 100,000 cwt. as a condition of the license. To receive a license the next year, each dealer must demonstrate a volume movement of at least 100,000 cwt. in two of the previous three years.

40. That each licensed dealer be required to purchase a significant portion of product grown by other farmers (e.g., 50 per cent). This requirement should be phased in over a period of 3-5 years.

41. That the new commodity board provide an annual workshop for Island dealer operations. It should be mandatory that at least one representative from each dealer operation attend such a course.

42. That all those being granted dealers' licenses agree to full disclosure of marketing information to the new commodity board - to meet the dealers' license qualifications of the Canadian Agricultural Products Standards Act (1955) - and to follow all orders and regulations as established by the new commodity board. These conditions are currently attached to the dealers' licenses.

Producer Company

43. That a Producer Company be formed to operate in the domestic market. Such a company should be facilitated under the sponsorship and guidance of the Potato Producers' Association.

Market Franchising

44. That the industry examine market franchising for specific market destinations.

Trademark

45. That the new commodity board register a trademark for Island potatoes.

Export Market

46. That all those granted export licenses agree to full disclosure to the new commodity board of all export contracts. All information forwarded to the new commodity board should be reported in masked form to protect the business of individual exporters.

47. That on a periodic basis exporters and the new commodity board establish a minimum guide price for seed potatoes. This can be accomplished through periodic meetings between the new commodity board and exporters.

48. That the new commodity board make every effort to obtain third-party information on the export market, similar to that published in Holland.

49. That the Island industry make efforts to establish a specialized seed sector providing small whole seed. The advent of plant breeders' rights would help facilitate the development of such a sector.

50. That membership in Potatoes Canada be a mandatory condition of an export dealers' license. A reciprocal condition should be expected from other participating provinces.

51. That the provincial government, the new commodity board, and Island exporters examine the formation of an export consortium.

Processing Market

52. That the new commodity board regularly monitor inspection and be permitted to request third-party inspection of processing potatoes at the Cavendish Farms plant.

53. That the new commodity board, provincial government, and the industry actively seek alternative uses and markets for the Island's lower-quality (cull) potatoes.

Elite Seed Sector

54. That contracts with Elite Seed growers be introduced in a scheduled manner each year. Sufficient time should be given for consultations between the Board and the Elite Seed Growers Association; for formulation and distribution of the contract to Elite growers; for Elite growers to consider the contract and make plans for the next crop year; and for the contract to be returned to the new commodity board for finalization of plans for the next crop year.

Quality

Elite Seed Standards

55. That a committee be established to formulate standards for the Elite Seed sector, to consist of representatives from the new commodity board, the provincial government, the Potato Producers' Association, the Agricultural Inspection Branch of Agriculture Canada, and the Elite Seed Growers Association.

Inspection

56. That the potato industry and the provincial government work with the Agriculture Inspection Branch of Agriculture Canada towards eliminating or drastically reducing the amount of potatoes being shipped under "y" certificates.

57. That the potato industry and the provincial government work with the Agriculture Inspection Branch of Agriculture Canada towards increasing the number of spot checks conducted at registered warehouses.

Potato Storage

58. That the provincial government conduct an awareness program to demonstrate to producers the benefits of improved storage. Such a program should provide evidence of quality differences between potatoes grown in different storage conditions as well as the economic benefits possible with improved storage.

59. That the provincial government undertake two pilot projects involving joint storage of tablestock potatoes. Each project should involve five or more farmers who, in the initial years, will pay a rental fee to use storage facilities. Should the project prove successful, the participating farmers may purchase the facility from the province.

60. That the provincial government undertake a study on the feasibility of establishing a climate-controlled storage facility for processed potatoes in the East Prince area.

Merchandising

61. That the potato industry adopt a Trademark of Excellence which qualified dealers would be able to advertise on packaged products.

62. That the Island industry work towards the development of a premium brand Prince Edward Island potato.

63. That any operations involved in repacking Island potatoes outside of Prince Edward Island receive approval from the new commodity board and be monitored for product quality. Should the new commodity board obtain a trademark for Island potatoes, certain conditions then could be placed on off-Island dealers involved in repacking.

64. That the new commodity board encourage consumer feedback by requiring that each package of Prince Edward Island potatoes carry a label inviting consumer comments.

65. That consumer comments be regularly relayed back to the industry through the new commodity board's newsletter.

66. That the new commodity board establish a fund to reimburse consumers who complain of the quality of product purchased. At the end of each marketing season, the fund could be recouped by billing back to the dealers responsible the cost of reimbursement.

National Alternatives

67. That the Island potato industry and government work towards the formation of a national supply-management system in Canada.

68. That the "Proposal for a Program for the Marketing of Potatoes in Canada" be endorsed by the Island industry and government as the basis for the development of a supply-management plan.

69. That the provincial government provide Island negotiators with the necessary back-up and technical advice to develop a national supply-management plan.

APPENDICES

Appendix A

Comparison of Total Potato Receipts to Total Crop Receipts and Total Farm Cash Receipts - P.E.I.

(1981-85)

Year	Total Potato Receipts	Total Crop Receipts	Total Farm Cash Receipts	Potato Receipts as a Percentage of Crop Receipts	Potato Receipts as a Percentage of Farm Cash Receipts
	($000,000)	($000,000)	($000,000)		
1981	79.2	105.4	189.2	75.1	41.9
1982	52.2	76.5	164.2	68.2	31.8
1983	65.0	93.2	175.7	69.7	37.0
1984	72.3	105.1	195.9	68.8	36.9
1985	54.1	86.7	176.4	62.4	30.7
Annual Average (1981-85)	64.6	93.4	180.3	69.2	35.8

Source: Statistics Canada, *Farm Receipts from Farming Operations,* August, 1986.

Appendix B

Average Annual Farmgate Price for Island Potatoes(1951-85)

Dollars per cwt.

Year	Dollars per cwt.
1951	3.55
1952	2.07
1953	.80
1954	2.12
1955	1.32
1956	1.48
1957	1.30
1958	1.30
1959	2.61
1960	1.48
1961	.91
1962	1.43
1963	1.50
1964	2.90
1965	2.55
1966	1.09
1967	1.37
1968	1.15
1969	2.01
1970	1.55
1971	1.42
1972	3.80
1973	6.20
1974	2.26
1975	5.98
1976	4.38
1977	2.45
1978	3.34
1979	2.76
1980	8.78
1981	4.78
1982	4.41
1983	7.94
1984	5.06
1985	3.15
Five-Year Annual Average(1951-55)*	1.97
Five-Year Annual Average(1956-60)*	1.63
Five-Year Annual Average(1961-65)*	1.86
Five-Year Annual Average(1966-70)*	1.43
Five-Year Annual Average(1971-75)*	3.93
Five-Year Annual Average(1976-80)*	4.34
Five-Year Annual Average(1981-85)*	5.06

*Note: Derived by adding average annual prices recorded in each five-year period and dividing by five.

Source: P.E.I. Department of Agriculture, Agriculture Statistics 1985, 1986, p. 54.

Appendix C

Consumer Price Index(1951-85)

(1971=100)

Year	C.P.I.
1951	66.0
1952	67.6
1953	67.0
1954	67.4
1955	67.5
1956	68.5
1957	70.7
1958	72.6
1959	73.4
1960	74.3
1961	75.0
1962	75.9
1963	77.2
1964	78.2
1965	80.5
1966	83.5
1967	86.5
1968	90.5
1969	94.1
1970	97.2
1971	100.0
1972	104.8
1973	112.7
1974	125.0
1975	138.5
1976	148.9
1977	160.8
1978	175.1
1979	191.2
1980	210.7
1981	237.0
1982	262.6
1983	277.8
1984	290.0
1985	301.6
Five-Year Average(1951-55)*	67.1
Five-Year Average(1956-60)*	71.9
Five-Year Average(1961-65)*	77.4
Five-Year Average(1966-70)*	90.3
Five-Year Average(1971-75)*	116.2
Five-Year Average(1976-80)*	177.3
Five-Year Average(1981-85)*	273.8

*Note: Derived by adding the yearly C.P.I. in each selected five-year period and dividing by five.

Sources:
1) Historical Statistics of Canada, 2nd Edition, Series K8-18
2) "Review of the Economy", Canada Year Book, 1985, p. 753
3) P.E.I. Department of Finance and Tourism, Province of Prince Edward Island Statistical Review, 1985 and 1986.

Appendix D

Comparison of Cullage and Loss to Total Production - P.E.I. (1976-85)

Year	Cullage and Loss (millions of cwts.)	Total Production (millions of cwts.)	Cullage and Loss as a Percentage of Total Production
1976	1.40	12.46	11.2
1977	2.62	11.83	22.1
1978	2.63	12.39	21.2
1979	3.93	15.55	18.8
1980	2.11	13.22	16.0
1981	3.05	16.16	18.9
1982	5.55	18.13	30.6
1983	4.51	17.50	25.8
1984	4.89	19.08	25.6
1985	3.80	17.62	21.6
Annual Average (1976-80)	2.54	13.09	19.3
Annual Average (1981-85)	4.36	17.70	24.6

Source: P.E.I. Department of Agriculture, Agriculture Statistics 1985, 1986, Table 39.

Appendix E

Comparison of New Brunswick's Cullage and Loss to Total Disposition
(1981-82 to 1985-86)

Year	Cullage & Loss (000 cwt.)	Total Disposition (000 cwt.)	Rate of Cullage & Loss (Percentage)
1981-82	2,608	13,255	19.7
1982-83	3,972	13,084	30.4
1983-84	2,003	11,513	17.4
1984-85	2,159	11,880	18.2
1985-86	2,614	15,440	16.9
Five-Year Total	13,356	65,172	20.2

Source: Agriculture Canada, Potato Market Review 1985-86, p. 52.

Appendix F

Comparison of American Cullage and Loss to Total Disposition

(1979-80 to 1983-84)

Year	Cullage & Loss (000 cwt.)	Total Disposition (000 cwt.)	Rate of Cullage & Loss (Percentage)
1979-80	30,128	341,956	8.8
1980-81	23,237	303,905	7.6
1981-82	26,339	340,623	7.7
1982-83	31,013	355,144	8.7
1983-84	24,675	333,911	7.4
Five-Year Total	136,392	1,675,539	8.1

Source: P.E.I. Department of Agriculture, Prince Edward Island Potato Statistical Summary 1985, Table 35.

Appendix G

Comparison of P.E.I.'s Total North American Shipments (Seed and Tablestock) to Total Marketable Stock and Total Production (1984-85)

	1984-85
Total North American Shipments	8.26 million cwt.
Total Marketable Stock	14.19 million cwt.
Total Production	18.63 million cwt.
Total North American Shipments as a Percentage of Total Marketable Stock	58.2 per cent
Total North American Shipments as a Percentage of Total Production	44.3 per cent

Source: Agriculture Canada, Potato Market Review 1984-85, p. 60.

Appendix H

Comparison of P.E.I. Seed and Tablestock Shipments into the North American Market

(1984-85)

	1984-85
Seed Shipments	.73 million cwt.
Tablestock Shipments	7.53 million cwt.
Total North American Shipments	8.26 million cwt.
Seed Shipments as a Percentage of Total North American Shipments	8.8 per cent
Tablestock Shipments as a Percentage of Total North American Shipments	91.2 per cent

Source: Agriculture Canada, Potato Market Review, 1984-85, p. 60.

Appendix I

Comparison of P.E.I. Shipments to Canadian and American Destinations

(1984-85)

	1984-85
Shipments to United States Destinations	1.83 million cwt.
Shipments to Canadian Destinations	6.43 million cwt.
Total North American Shipments	8.26 million cwt.
Shipments to United States Destinations as a Percentage of Total North American Shipments	22.2 per cent
Shipments to Canadian Destinations as a Percentage of Total North American Shipments	77.8 per cent

Source: Agriculture Canada, Potato Market Review, 1984-85, p. 60.

Appendix J

Comparison of Countpack Shipments to Total North American Shipments

(1984-85)

Total Countpack Shipments	.38 million cwt.
Total North American Shipments	8.26 million cwt.
Countpack Shipments as a Percentage of Total North American Shipments	4.5 per cent

Sources: 1) P.E.I. Potato Marketing Board, information submitted by the P.E.I. Count Potato Association.

2) Agriculture Canada, Potato Market Review 1984-85, p. 60.

Appendix K

Destination and Volume of Island Off-Shore Tablestock Exports
(1984-85)

Country of Destination	Volume (000 cwts.)
Trinidad	401
Barbados	107
Puerto Rico	41
Other*	17
Total	566

*Note: Countries which imported less than 10,000 cwt. of tablestock potatoes from P.E.I. includes Bermuda, St. Pierre and Michelon, Antigua, Grenada, St. Kitts, Sweden, West Germany, Belgium, France and Kuwait.

Sources: Agriculture Canada, Potato Market Review 1984-85, p. 62.

Appendix L

Destination and Volume of Island Off-Shore Seed Exports (1984-85)

Country of Destination	Volume (000 cwt.)
Venezuela	410
Uruguay	265
Portugal	214
Spain	140
Italy	117
Algeria	94
Greece	23
Other*	23
Total	1286

*Note: Countries which imported less than 10,000 cwt. of seed potatoes from P.E.I. includes Bermuda, Cuba, Dominican Republic, Jamaica, Panama, Agrentina, Brazil, Jordon and Lebanon.

Source: Agriculture Canada, Potato Market Review 1984-85, p. 63.

Appendix M

Monthly Movement of Island Potatoes to Market (Tablestock & Seed)
(1981-82 to 1985-86)

Month	1981-82 (000 cwt.)	1982-83 (000 cwt.)	1983-84 (000 cwt.)	1984-85 (000 cwt.)	1985-86 (000 cwt.)	Five-Year Average
To Oct. 31	1,306	1,176	1,465	1,463	947	1,271
Nov.	948	930	1,432	1,110	653	995
Dec.	958	1,542	1,267	984	725	1,095
Jan.	1,340	804	1,153	1,429	1,199	1,205
Feb.	699	760	895	1,051	717	824
March	1,222	1,157	916	1,059	733	1,017
April	1,451	934	1,050	1,389	1,003	1,165
May	1,142	659	689	1,104	702	839
June	659	569	362	475	475	508
July	162	162	24	53	61	92
Total	9,789	8,693	9,254	10,120	7,217	9,013

Sources: Agriculture Canada, *Potato Market Review 1981-82*, 1982-83, 1983-84, 1984-85, 1985-86.

Appendix N

Comparison of P.E.I. Shipments to the United States and the American Exchange Rate

(1976-1985)

Year	Exchange Rate (Yearly Average)	P.E.I. Shipments to the United States
	(Canadian $ per U.S. Unit)	(000 cwt.)
1976	.9861	97
1977	1.0635	270
1978	1.1402	187
1979	1.1715	249
1980	1.1690	827
1981	1.1990	1,165
1982	1.2341	1,167
1983	1.2324	1,019
1984	1.2948	1,587
1985	1.3652	747

Sources: 1) P.E.I. Department of Agriculture, Agricultural Statistics, 1985, p. 56

2) Bank of Canada, Bank of Canada Review, January, 1987, p. 5131.

Appendix O

Off-Shore Tablestock Exports by Province
(1984-85)

Province	Volume (million cwt.)	Percentage
Prince Edward Island	.57	81.4
New Brunswick	.13	18.6
Other	*	*
Total(Canada)	.70	100%

*Note: Nova Scotia shipped 629 cwt. to St. Pierre and Ontario shipped 800 cwt. to St. Lucia and the West Indies.

Source: Agriculture Canada, Potato Market Review 1984-85, p. 26.

Appendix P

Off-Shore Seed Potato Exports by Province
(1984-85)

Province	Volume (million cwt.)	Percentage
Prince Edward Island	1.29	73.3
New Brunswick	.47	26.7
Other	*	*
Total(Canada)	1.76	100.0%

*Note: Nova Scotia shipped 176 cwt. to Bermuda during this year.

Source: Agriculture Canada, Potato Market Review 1984-85, p. 29.

Appendix Q

Canada's Potato Exports and Imports of Tablestock Potatoes to and from the United States

(1981-82 to 1985-86)

Year	Exports (million cwt.)	Imports (million cwt.)
1981-82	3.27	3.35
1982-83	2.59	2.30
1983-84	1.89	3.00
1984-85	3.75	3.21
1985-86	3.24	2.98

Source: 1) Agriculture Canada, Potato Market Review 1984-85, p. 24 and p. 30.

2) Ibid., Potato Market Review 1985-86, p. 20 and p. 24.

Appendix R

Canada's Export and Import of Seed Potatoes to and from the United States

(1981-82 to 1985-86)

Year	Exports (million cwt.)	Imports (million cwt.)
1981-82	1.20	.15
1982-83	.62	.17
1983-84	.57	.18
1984-85	.96	.23
1985-86	.77	.23

Sources: 1) Agriculture Canada, Potato Market Review 1984-85, p. 27 and p. 30.

2) Ibid., Potato Market Review 1985-86, pp. 23 and 24.

Appendix S

Potato Farm Cash Receipts Per Acre - P.E.I.

(1971-85)

Year	Average Yield Per Acre (cwts.)	Average Farm Price ($ per cwt.)	Farm Cash Receipts Per Acre
1971	199.4	1.42	283.15
1972	224.1	3.80	851.58
1973	227.5	6.20	1,410.50
1974	239.5	2.26	541.27
1975	201.8	5.98	1,206.76
1976	241.4	4.38	1,057.33
1977	215.1	2.45	526.99
1978	221.2	3.34	738.81
1979	254.9	2.76	703.52
1980	227.9	8.78	2,000.91
1981	240.0	4.78	1,147.20
1982	252.6	4.41	1,113.97
1983	262.7	7.94	2,085.84
1984	250.0	5.06	1,265.00
1985	240.0	3.15	756.00
Five Year Average(1971-75)-Farm Cash Receipts Per Acre			858.65
Five Year Average(1976-80)-Farm Cash Receipts Per Acre			1,005.52
Five-Year Average(1981-85)-Farm Cash Receipts Per Acre			1,273.60

Source: P.E.I. Department of Agriculture, Agriculture Statistics 1985, p.54.

Appendix T

American Annual Per Capita Consumption of Frozen Potatoes

(1962-83)

Year	Pounds Per Capita
1962	3.8
1963	4.4
1964	5.9
1965	5.7
1966	6.9
1967	7.6
1968	8.5
1969	9.8
1970	11.1
1971	12.1
1972	12.2
1973	13.2
1974	13.1
1975	13.7
1976	14.6
1977	15.7
1978	17.2
1979	17.7
1980	16.9
1981	18.2
1982	18.1
1983	18.8

Source: U.S. Department of Agriculture. Cited in brief presented to Commission by Cavendish Farms, 3 February 1987.

Appendix U

Comparison of Canadian and American per Capita Consumption of White Potatoes (1967-1982)*

Year	Canada (lbs.)	United States (lbs.)
1967	170.2	108.4
1968	148.4	115.3
1969	166.5	116.8
1970	150.0	116.6
1971	158.7	118.0
1972	159.8	118.5
1973	151.2	115.6
1974	146.8	112.9
1975	162.0	120.2
1976	147.0	114.9
1977	159.0	120.0
1978	158.8	120.1
1979	173.3	119.4
1980	156.2	117.4
1981	142.5	112.4
1982	153.4	115.3

*Note: Information contained in Appendix U was initially given in kilograms. The Commission reverted data to pounds by multiplying by a factor of 2.2.

Source: P.E.I. Department of Agriculture, Prince Edward Island Statistical Summary 1985, Table 50.

Appendix V

Canadian Expenditure on Food, Beverages and Tobacco As a Percentage of Personal Disposal Income

(1963-83)

Year	Expenditures as a Percentage of Disposable Income
1963	23.22
1964	23.13
1965	22.63
1966	21.92
1967	21.78
1968	21.25
1969	20.97
1970	21.17
1971	20.65
1972	20.17
1973	19.78
1974	19.20
1975	19.25
1976	18.40
1977	18.17
1978	18.00
1979	17.77
1980	17.43
1981	17.16
1982	17.37
1983	17.26

Source: Linda G. Robbins, *Handbook of Food Expenditure, Prices and Consumption* (Agriculture Canada, November 1986) publication number 86.1, p. 27.

Appendix W

Comparison on Expenditure on Food, Beverages and Tobacco as a Percentage of Disposable Income, Selected Countries

(1983)

Country	Expenditure as a Percentage of Disposable Income
Canada	17.26
United States	14.14
Japan	19.47
Australia	20.06
Austria	22.43
Belgium	21.13
Finland	25.05
France	18.90
Germany	21.84
Greece	34.76
Italy	N/A
Netherlands	16.56
Portugal	N/A
Spain	N/A
Sweden	24.12
Switzerland	24.23
United Kingdom	18.45

Source: Linda G. Robbins, Handbook of Food Expenditure Prices and Consumption (Agriculture Canada, November 1986), publication number 86.1, p. 275.

Appendix X

Comparison of Potato Production for Selected Countries and Total World Production

(1982)

Country	Production (millions of metric tonnes)
U.S.S.R	78.0
Poland	32.0
China	15.0
East and West Germany	16.8
United States	15.8
India	9.9
France	6.8
United Kingdom	6.6
Netherlands	6.2
Spain	5.1
Canada	2.8
Others	61.9
Total World Production	256.9

Source: P.E.I. Department of Agriculture, *Prince Edward Island Potato Statistical Summary 1985*, Table 49.

Appendix Y

Comparison of Canadian Potato Production by Province

(1984)

Province	Production (million cwt.)	Percentage of Production
Newfoundland	98	.1
Prince Edward Island	19,080	31.0
Nova Scotia	861	1.4
New Brunswick	11,880	19.3
Quebec	9,039	14.7
Ontario	7,525	12.2
Manitoba	5,829	9.5
Saskatchewan	456	.7
Alberta	4,675	7.6
British Columbia	2,093	3.4
Total Canadian Production	61,536	100.0

Source: P.E.I. Department of Agriculture, Prince Edward Island Potato Statistical Summary 1985, Table 3.